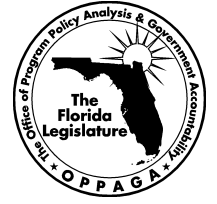




Office of Program Policy Analysis And Government Accountability



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February 1998

Review of the Potential for Privatizing Student Transportation

Abstract

- Nationwide, many school districts use private bus contractors. However, only 2 of Florida's 67 school districts regularly contract with private providers for bus service.
- Most of the districts we contacted in other states reported positive results from privatizing. These districts indicated that by contracting with private bus firms, they were able to reduce student transportation costs and/or improve service quality.
- The two Florida school districts using privatized bus services are satisfied with the services they are receiving.
- Numerous factors, such as different district demographics, service levels, and inconsistent cost accounting procedures, make it difficult to accurately compare costs between school districts.
- Privatization of student transportation poses both advantages and disadvantages. If it is properly structured, privatization could reduce costs and/or improve service quality for some Florida school districts.
- Whether or not districts choose to privatize student transportation, there are steps they can take to reduce their transportation costs. We estimate these steps could save over \$13 million per year.

Purpose

The Joint Legislative Auditing Committee, at the request of the Senate Education Committee, directed the Office of Program Policy Analysis and Government Accountability (OPPAGA) to examine the advantages and disadvantages and the possible cost savings that could be obtained by privatizing student transportation services.

Background

State law [s. 234.01(1)(a), F.S.] requires each school district in Florida to provide student transportation. In Fiscal Year 1995-96, Florida school districts transported approximately 937,000 students daily using a fleet of 16,962 buses.

The state helps districts provide student transportation by allocating funding for the following groups of students:

- students that live two or more miles from the school they attend (with exceptions granted for students 6th grade and under who would be required to walk in hazardous areas to attend school);
- pre-kindergarten students;
- disabled students;
- participants in teenage parent programs; and
- special education, vocational and dual enrollment students transported from one school to another school.

The state appropriates student transportation funding annually based on a formula in statute (s. 236.083, F.S.). The formula makes adjustments for specific district traits such as cost of living and population density. It also uses a bus occupancy index, which rewards districts that use buses more efficiently. Transportation expenses that exceed the state allotment are paid with local district funds. In Fiscal Year 1997-98, the Legislature appropriated \$375 million for student transportation.

Findings

Nationwide, many public school districts use private bus contractors to transport their students. However, only 2 of 67 Florida school districts contract with private providers for bus service.

A large number of districts throughout the country operate their student transportation programs all or in part through private contractors. According to a survey conducted by School Transportation News, private contractors owned about one-third of the buses used to transport public school students in the 1995-96 school year.¹

In Florida, school districts rarely privatize student transportation services. While many districts contract out small portions of their transportation systems (e.g., major maintenance work such as engine rebuilding), only two districts regularly use private providers for bus service: Dade County and Duval County.

Most of the districts we contacted in other states that have privatized their transportation systems report cost savings and/or increased service quality.

To determine the experiences of school districts in other states with using private bus contractors, OPPAGA surveyed transportation directors from ten school districts across the country.² Of these ten districts, four districts converted to privatized services

¹ School Transportation News Buyer's Guide and Telephone Directory, October 1997, page 7.

² We interviewed school district officials from Atlanta, GA; Beaufort, SC; Charleston, SC; Danville, IN; Jefferson City, MO; Little Rock, AK; Los Angeles, CA; Memphis, TN; Pontiac, MI; and San Diego, CA.

within the last few years, five districts have contracted for more than 15 years, and one district previously contracted but switched back to in-house service. The districts reported the following experiences from privatizing student transportation services:

Reasons for Privatizing Services. District officials identified several factors that influenced their decisions to privatize student transportation services. These factors include budgetary shortfalls, labor problems, poor quality of transportation service, inability to keep up with student population growth, and/or a desire to re-focus on the core mission of education.

Scope of Privatized Services. The districts use privatized services in a variety of ways to meet their student transportation needs. For example, some districts privatize all of their student transportation operations. Other districts use a combination of in-house service and privatized service to transport students. One district opted to retain ownership of its bus fleet and maintenance facilities and contract out just for the drivers and mechanics. In most cases, districts reported using a single bus contractor.

Benefits from Privatizing. Most districts reported positive results from privatizing student transportation. Specifically, they reported cost savings (6 of 10); improved quality of services (7 of 10); reduced administrative burden allowing staff to re-focus on core educational functions (5 of 10); reduced capital outlays for bus purchases (3 of 10); and improved ability to handle student population growth (2 of 10).

Personnel Issues. Two of the four districts that recently converted to privatized systems gave drivers and mechanics the option of remaining district employees or becoming employees of the contractor. In these cases, the majority of drivers and mechanics opted to work for the contractor.

Problems with Privatized Services. Only two of the ten districts reported significant problems with their contractors. Specifically, one district was dissatisfied that the contractor replaced the assigned transportation manager with a less experienced person after the startup phase. Another district reported that their contractor tried to increase prices, so they subsequently converted to in-house service.

The two Florida school districts using privatized bus services are satisfied with the services they are receiving. However, one district reports that the cost of privatized services is higher than in-house services. This may be due to the district's reason for privatizing.

The Dade County and Duval County school districts both contract for bus services. These districts use a large number of private bus contractors, while districts in other states typically use a single provider. Both districts appear to be satisfied with using privatized bus services.

Dade County. Dade County School District started using private contractors for some of its bus routes in 1987. The district presently uses privatized services for 50 of its 1,360 home-to-school routes. The district has kept the number of privatized routes at 50 since 1993. Most contractors are small, locally owned businesses, not large national firms. These contractors also periodically provide transportation for field trips and extracurricular activities.

Dade County awards routes to qualified bidders with the lowest bid prices. However, Dade County staff report the cost of privatized service is 11% greater than the cost of in-house service. The main reason Dade County continues these 50 privatized routes is to afford small businesses located in Dade County the opportunity to do business with the district. District transportation staff indicated they would continue using privatized services in the future.

Duval County. Duval County Public Schools has used privatized transportation services for over 40 years. The district currently contracts with 123 bus companies. Using such a large number of contractors has made it difficult for Duval County transportation staff to communicate with some of the contractors to resolve problems in a timely manner. Nevertheless, Duval County's superintendent indicated the district is satisfied with its contracting arrangement and plans to continue operating this way in the future.

Private contractors in Duval County do not compete for bus routes on the basis of price. Instead, the district sets payment rates and assigns routes to contractors based on how they rank on factors such as on-time performance. Because Duval County does not operate

any of its own buses, it has no point of comparison and cannot determine the cost impact of using privatized transportation services.

Numerous factors, such as different district demographics, service levels, and inconsistent cost accounting procedures, make it difficult to accurately compare costs between school districts. Therefore, it is not clear how privatization in Dade or Duval County has affected costs relative to other districts in the state.

School districts report their transportation costs to the Department of Education annually. In Fiscal Year 1995-96, the reported costs per student varied from \$363 to \$1,215. Numerous factors account for this variation, including differences in cost of living, district demographics, transportation service levels, and operational efficiency. Inconsistent district cost accounting procedures are another factor causing at least some of the variation in costs. For example, districts do not account for bus drivers' and mechanics' unemployment compensation costs in the same manner. Specifically, we found one district that accounts for this cost within the pupil transportation cost function, but identified two other districts that account for this cost in other cost functions. The variations caused by the above factors make it difficult to accurately compare costs between districts.

The Department of Education has published a manual governing school district financial and program cost accounting and reporting. This manual has been incorporated in Rule 6A-1.001, Florida Administrative Code. The manual indicates that districts are to report student transportation costs under the pupil transportation cost function. However, the manual does not specifically identify all costs that should be included in this function. As seen above, the manual's lack of specificity could allow for differing interpretations of how to account for costs. This contributes to the difficulty in accurately comparing costs between districts. Districts need better guidance from the Department of Education to more uniformly account for student transportation costs.

Privatizing student transportation services poses both advantages and disadvantages.

Professional literature and student transportation experts have identified the following advantages and disadvantages associated with privatizing student transportation services:

Advantages

- School districts may be able to reduce student transportation costs and improve service quality through competition among service providers.
- Contractors often have a broad range of experience in dealing with problems in numerous school districts. This experience might allow contractors to solve district student transportation problems more quickly and effectively.
- Incentive clauses can be incorporated into contracts, which can increase efficiency. For example, a district can incorporate an incentive clause into the contract that allows cost savings resulting from route reductions proposed by the contractor to be shared between the district and the contractor.
- Through economies of scale, contractors are often able to provide better fleet management, driver training, and specialized routing programs than school districts. For example, one large national student transportation firm has gained maintenance expertise by servicing not only a large number of school buses but also other types of vehicles that use similar chassis and engines. The company uses this expertise to purchase reliable and cost-effective buses and parts.
- By privatizing ancillary services such as student transportation, district and school administrators can re-focus their attention on core educational functions such as instruction.
- If the contractor provides the district with school buses, the district is no longer faced with large capital outlays to replace its school buses.

Disadvantages

- Contractors might “lowball” (deliberately understate) costs on a bid to receive a contract, then attempt to raise prices after the contract is awarded.

- Districts may have less control of day to day operations if services are privatized. For example, district staff would need to go through the contractor to determine why a bus was late instead of communicating directly with the driver.
- Districts using a single provider may not receive needed student transportation services if their contractor defaults or if there are contract disputes.
- Privatizing requires districts to employ qualified in-house staff to develop comprehensive contracts and monitor contractor performance.
- If contracts are poorly written (e.g., do not address all the services districts will need during the length of the contract), the cost of the additional services could result in higher than expected student transportation expenditures.

A properly structured contract can mitigate some of these disadvantages. For example, districts can help avoid “lowballing” by specifying in the contract that prices are only allowed to rise with inflation. In addition, districts can reduce service disruptions from contractor defaults or contract disputes by using more than one provider, or by using a combination of privatized and in-house service.

Some Florida school districts may be able to reduce costs and/or improve service quality by privatizing their student transportation services. To estimate the cost savings that could be obtained through privatization, several districts would need to conduct pilot studies.

Many school districts we surveyed in other states reported they saved costs and/or improved service quality by privatizing their student transportation services. Based on their experiences, we believe some Florida school districts could also save costs and/or improve service quality by properly designing and implementing privatization for some or all of their student transportation services. These include districts that experience one or more of the following conditions:

- lack expertise in proper fleet management practices, evidenced by indicators such as an excessive number of spare buses and a high rate of mechanical failure;

- are experiencing consistent quality problems such as late pickup and delivery of students;
- are unable to obtain funds to replace buses when it is necessary to do so;
- desire to re-focus administrators' attention on core educational functions; and
- need to reduce student transportation costs in order to make more funding available for core educational functions.

To estimate the cost savings that could be obtained by privatizing student transportation services, a representative mix of school districts would need to conduct pilot studies. These pilot studies would involve the following steps:

1. determine the full costs of each student transportation activity currently provided in-house;
2. solicit bids for the services districts wish to privatize, keeping the level of service constant;
3. compare proposed costs of privatized services to current full in-house costs. If costs of privatized services are lower with the same level of service, hire the lowest bidder to perform these services;
4. perform a "before and after" cost analysis at the end of the contract that compares total cost of privatized services to the estimated cost of the services if they had remained in-house.

We are not aware of any Florida districts that have performed this type of pilot study.

Districts wishing to successfully privatize some or all of their student transportation services need to perform several steps.

Privatization literature and student transportation experts have identified several steps needed to successfully privatize student transportation services:

- **Determine the Full Cost of Student Transportation.** To make an accurate assessment of whether privatization would save costs, school districts need to determine the full cost of in-house services, including the cost of buses and facilities, depreciation on these assets, and administrative overhead costs. This information is needed when comparing the costs of in-house student

transportation services to the costs of contracted services (including contract administration costs).

- **Determine Transportation Needs.** Districts need to identify the services they currently provide and whether it would be advantageous to privatize these services. By using a "make vs. buy" analysis, districts can determine which student transportation activities currently provided in-house (e.g., transporting regular education students, maintenance, etc.) should instead be privatized.
- **Determine If Local Market Is Competitive.** If there are an insufficient number of prospective bidders, privatization may not generate enough competition to produce price advantages. In addition, a successful bidder may face few incentives from the non-competitive market to perform well.
- **Draw Tight Contract Specifications.** Districts need to execute contracts that are comprehensive, covering all the services to be provided by the contractor. In addition, a contract should contain incentive clauses that encourage contractors to find ways to reduce costs while maintaining high quality services. Conversely, if contractor performance is not adequate, the contract should allow the district to levy penalties against the contractor. Districts should also incorporate provisions into their contracts for buying back buses at market value if they wish to resume in-house service.
- **Closely Monitor Contract.** Districts should closely monitor services provided by contractors and measure results against agreed upon standards. Districts should also employ experienced in-house contract administrators.

In addition, privatization is more likely to be introduced and implemented when a political leader, such as a superintendent or school board member, champions it. Districts wishing to privatize their systems should also educate their transportation staff about privatization proposals and how these developments will affect their jobs, wages, and benefits (a district could reduce possible impacts on current staff by requiring the contractor to hire employees at a competitive compensation package).

One way for districts to ensure cost savings when privatizing their student transportation systems is to require that bidders submit costs amounting to no more than a certain percentage of the district's current in-house costs, while maintaining at least the same level and quality of service. For example, a district could ensure at least a 10% cost savings by requiring any bids to be at least 10% below the district's in-house costs plus the estimated costs of contract administration.³

Regardless of whether Florida school districts privatize their student transportation systems, there are steps they can take to reduce their student transportation costs.

Numerous factors affect student transportation costs. Districts exercise control over some of these factors, such as level of service, but cannot control other factors like district demographics. Controllable and non-controllable factors are equally important in determining district transportation costs.

By implementing certain changes, Florida school districts could realize substantial cost savings in student transportation. Districts can make these changes regardless of whether or not they decide to privatize their student transportation systems. Examples of changes that would reduce costs include the following:

Reduce the Number of Courtesy Riders. Courtesy riders are those students living less than two miles from school and not eligible for state funding. Transporting courtesy riders generally requires more buses and drivers. Statewide, districts reported carrying over 65,000 courtesy riders in Fiscal Year 1995-96. This is equal to 7% of eligible transported students. At the individual district level, the percentage of courtesy riders ranged from 0% to 62%. We estimate that if school districts had not transported any courtesy riders in Fiscal Year 1995-96, they would have saved \$6.8 million.⁴

³ The state of Mississippi uses a similar process to ensure that privatization of prison operations leads to at least a 10% cost savings [Mississippi Code Ann. Section 47-5-1211(1)(3)(a)].

⁴ To estimate cost savings, we calculated the driver, fuel, and maintenance costs that could be avoided by eliminating half the buses needed to transport courtesy riders in each county. Our estimate assumes bus occupancy of 65 passengers per bus.

Increase Bus Occupancy Rates. The bus occupancy rate is the average number of students transported per bus. If districts are able to transport their students using fewer buses, all else being equal, they can reduce their costs per student. Districts can achieve higher bus occupancy rates by staggering school bell times to allow buses to make multiple runs, using larger buses, optimizing the location of bus stops, and using routing procedures that maximize bus occupancy. In Fiscal Year 1995-96, average bus occupancy ranged from 43.0 students (Jefferson) to 103.59 students (Volusia), and the state median was 67.1 students. We estimate that if the 33 school districts with a bus occupancy rate lower than the state median improved to at least 67.1, they would have saved a minimum of \$6.4 million in Fiscal Year 1995-96.⁵

Reduce the Number of Spare Buses. Spare buses are used as replacements for regular buses that are unable to run their routes. With spare buses, districts need to strike a balance between being able to meet contingencies and keeping cost to a minimum. The cost of spare buses includes fuel, maintenance, and an "opportunity cost," which is the amount that could be obtained by selling the buses at fair market value. Industry standards recommend a spare bus inventory equal to 15% of a district's total fleet. Exceeding a 15% spare bus ratio can impose unnecessary costs on a district.

Conclusions and Recommendations

In Fiscal Year 1995-96, Florida school districts transported about 937,000 students. Districts receive state transportation funding based on a statutory formula. Transportation expenditures that exceed the state allotment are paid with local district funds.

A large number of school districts throughout the country use privatized student transportation services. However, only two Florida districts contract with private bus firms to transport their students.

Most school districts in other states we contacted reported cost savings and/or increased service quality from privatization. The two districts in Florida using

⁵ To estimate savings, we calculated the driver, fuel, and maintenance costs that could be avoided by increasing bus occupancy rates, thus, reducing the number of buses required to transport students. We adjusted this figure downward to \$6.4 million since a reduced number of courtesy riders would increase bus occupancy rates.

privatized bus services indicated they were satisfied with the services they are receiving. However, one district reports that the cost of privatized services is higher than in-house services. It is not clear how privatization in these two districts has affected their costs relative to other districts in the state. This is because numerous factors, such as different district demographics, service levels, and inconsistent cost accounting procedures, make it difficult to accurately compare costs between school districts.

Privatization of student transportation services has both advantages and disadvantages. Based on the experiences of school districts in other states, we believe privatization of student transportation has the potential to save costs and/or improve service quality for some Florida school districts. To estimate the possible cost savings that could be obtained through privatization, several districts would need to conduct pilot studies. For privatization to be successful, districts need to meet several requirements such as determining the full cost of student transportation, having a competitive local market, implementing comprehensive contracts, and establishing adequate contract monitoring procedures.

Regardless of whether districts choose to privatize their student transportation systems, districts can take steps to reduce student transportation costs. These steps include reducing the number of courtesy riders, increasing bus occupancy rates, and reducing the number of spare buses. We estimate these steps could save over \$13 million per year.

As directed by the 1997 Legislature, OPPAGA and the Auditor General developed the Best Financial Management Practices, which have been adopted by the Commissioner of Education. These practices were created to increase public confidence and support for districts that demonstrate good stewardship of public resources, encourage cost savings, and improve school district management and use of resources. Best Financial Management Practices have been developed for specific areas, such as food service, personnel systems, and student transportation.

To encourage the most cost-effective use of student transportation dollars, we recommend school districts perform the following steps, consistent with the Best Financial Management Practices for student transportation:

- periodically conduct “make vs. buy” analyses that should focus on the major activities of student transportation such as driving and maintenance and compare the full costs of in-house vs. contracted service for each activity;
- consider implementing pilot projects to determine whether privatization of student transportation services would reduce costs and/or improve service quality for some school districts; and
- examine all controllable factors to determine where costs could be reduced and implement changes wherever possible. This includes reducing the number of courtesy riders, increasing bus occupancy rates, and reducing the number of spare buses.

In addition, we recommend the Department of Education:

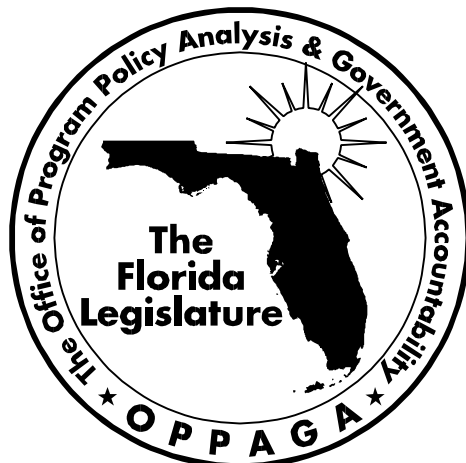
- provide technical assistance to districts that are considering privatizing their student transportation systems. This could include helping districts conduct "make vs. buy" analyses, develop privatization proposals, and administer contracts; and
- improve its financial and program cost accounting manual so that districts more uniformly account for the full cost of student transportation services. More uniform accounting practices are needed to accurately compare transportation costs between school districts. The Department's manual should specifically identify all costs that should be reported under the pupil transportation function.

Agency Response

The deputy commissioner for planning, budgeting and management agreed that school districts should consider privatization of student transportation and that different districts might benefit to varying degrees. The deputy commissioner also said that there may be no advantage to privatizing transportation in those districts that already operate very efficiently. He also commented that student safety is paramount when providing transportation and that districts overseeing private contractors should ensure that the pressure to control costs does not compromise safety.

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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