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FISCAL IMPACT REPORT

ORIGINAL DATE 03/06/13

SPONSOR Gonzales LAST UPDATED _____ HB 603

SHORT TITLE School District Bus Rental Fee Times SB _____

ANALYST Gudgel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Minimal	Minimal	Minimal	Recurring	PED Operating Budget

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

For the Legislative Education Study Committee

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Education Department (PED)

SUMMARY

Synopsis of Bill

House Bill 603 amends Section 22-8-27 NMSA 1978 of the Public School Finance Act to extend the amount of time a district pays school bus rental fees to private contractors from five years to twelve years.

FISCAL IMPLICATIONS

Current statute prohibits a school district from paying rental fees for a bus for more than five years. The bill would extend this time period to 12 years. Current law mandates rental fees be made over a 5 year period for buses that are operated for 12 years pursuant to the statutory replacement cycle. Receipt of rental fees are generally consistent with the length of time financing is available to ensure contractors do not have to use other revenues to finance school busses. The law, however, provides for recuperation of overpayments in the event contract is terminated to protect the state's investment. The PED indicates that if a contract is terminated, the Department calculates the remaining number of years the bus can be used based on a 12-year

replacement cycle and will calculate a value reflecting that use. Any overpayment, the difference between the calculated value and the lowest appraised value of the bus, is collected from the contractor. Changes proposed in the bill will significantly lower the overpayments calculated for a terminated contract. Contractors will not receive all of the rental fees in the first five years, likely resulting in very low overpayment calculations. This will make it easier for contractors to terminate bus contracts with school districts.

However, contractors will be required to subsidize school bus financing during the financing period if the bill is passed. Current law provides for a five year period for rental fees consistent with the length of time contractors are able to secure financing. Financial institutions generally do not offer 12-year terms to finance school buses. If the bill is enacted, contractors will have to find a revenue source to subsidize school bus financing payments during the first 5 years, significantly reducing the contractor's profits during this time period.

SIGNIFICANT ISSUES

Prior to 1995, rental payments were made over a nine-year period with a continued use allowance up to 12 years. As a result of the 1994 legislative interim task force, it was decided to modify the rental payments to a five-year period with a continued use allowance for up to 12 years. School bus contractors are generally able to secure five-year financing for school buses. The 1995 changes aligned the rental payments with the time period contractors are able to secure for financing, and resulted in contractors not having to use other transportation operational funds to make payments on financed school buses during the first five years.

The PED's analysis indicates the use of contractor-owned buses by school districts requires the Secretary of Education to establish a schedule for the payment of rental fees for the use of contractor-owned buses in accordance with Section 22-8-27 NMSA 1978. Currently school bus contractors are given approvals to purchase new buses after their current bus reaches twelve years of age. After the PED sends out an approval letter to a school district, the contractor will secure financing for a bus and the state will pay rental fees to the contractor in 5 year installments. These rental fee payments will essentially cover the contractor's payments to purchase the bus.

Extending the time period from five years to 12 years for contractors to receive rental payments on school buses may negatively affect private contractors providing transportation services to New Mexico students if the contractor does not have other revenues during the first five years to make the required monthly payment.

TECHNICAL ISSUES

The PED notes it would be very difficult to change the current rental fee schedule for busses currently financed by contractors. The Department suggests the Legislature may want to consider making the changes of the bill effective for new school bus purchases only.