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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/17
LAST UPDATED 3/08/17 **HB** 47/aHF1#1

SPONSOR Roch

SHORT TITLE Extend School Bus Replacement Cycle **SB** _____

ANALYST Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY18	FY19	FY20	FY21	FY22	FY23	6 Year Total Cost	Recurring or Nonrecurring	Fund Affected
(\$17,340.0)*	(\$9,775.0)*	(\$6,350.0)*	\$10,030.0	\$9,755.0	\$13,660.0	\$0	Nonrecurring	Public School Capital Outlay Fund
(\$1,660.0)*	(\$2,660.0)*	(\$4,300.0)*	\$1,600.0	\$2,660.0	\$4,300.0	\$0	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

*See Fiscal Implications - Note

Relates to the General Appropriation Act
 Relates to HB178, HB392, SB66, SB170, SB381

SOURCES OF INFORMATION

LFC Files
 Legislative Education Study Committee (LESC) Files

Responses Received From
 Public Education Department (PED)
 Public School Facilities Authority (PSFA)

SUMMARY

Synopsis of HF1#1 Amendment

The House Floor amendment to House Bill 47 adds a new provision allowing PED to replace a school bus before school begins if the odometer reading exceeds 300 thousand miles. This will allow school buses to be replaced upon completion of a 15 year cycle or 300 thousand miles traveled, whichever occurs earlier. The amendment also changes a provision that allows school districts to petition PED for permission to replace buses on a different schedule contingent upon satisfactory annual safety inspections. This amendment will allow shorter or longer bus replacement cycles depending on results of annual safety inspections.

Synopsis of Original Bill

House Bill 47 amends the Public School Code to extend the school bus replacement cycle from 12 years to 15 years.

FISCAL IMPLICATIONS

This bill will delay statutory requirements to replace the 2006 bus cohort and a portion of the 2005 bus cohort, which are scheduled for replacement in FY18, until FY20. Since FY04, school bus replacements have been funded through the General Appropriation Act and various capital outlay funds. However, beginning in FY13, school bus replacements received funding primarily through supplemental severance tax bond proceeds appropriated from the public school capital outlay fund.

Note: The House Appropriations and Finance Committee substitute for House Bill 2 and 3 does not account for the \$17.3 million needed to replace school buses in FY18; therefore, enactment of the bill will not result in additional savings—the bill will only delay current obligations to replace buses for two to three years. For actual general fund savings to occur, a reduction to the General Appropriation Act would need to be implemented for FY18 and subsequently until the new replacement cycle is phased in.

PED reports the \$7 million from the public school capital outlay fund appropriated for school bus replacement in FY17 was used to replace buses in the 2004 cohort, indicating funding levels are not adequately meeting statutory requirements for a 12-year replacement cycle. For FY18, PED's Infrastructure Capital Improvement Plan request is \$17.3 million to replace 204 school buses, including 86 buses from the 2005 bus cohort. According to PED, a typical 72-passenger bus costs about \$85 thousand. If enacted, this bill will delay a \$7.3 million fiscal impact of replacing 86 buses from the 2005 cohort until FY20 and a \$10 million fiscal impact of replacing 118 buses from the 2006 cohort until FY21. The House Floor amendment provides flexibility to school districts to petition shorter or longer replacement schedules based on safety inspection results. The potential costs may increase for school districts seeking to replace buses earlier, although potential savings may also be realized from school districts seeking longer replacement schedules as well. PED notes the costs of maintaining older buses can increase as parts wear out and additional maintenance is conducted.

Potential general fund savings could be realized through rental fees paid to school bus contractors through the public school transportation distribution. Contractor-owned school bus are financed over a five-year period from these rental fees, but the buses are used for the entirety of the 12-year cycle. PED estimates annual payments on contractor-owned buses is \$20 thousand per bus. In FY18, 83 contractor-owned buses are scheduled for replacement, followed by 50 in FY19 and 82 in FY20. Rental fees would still need to be paid to contractors, but the adoption of a 15-year or 300 thousand mile replacement cycle would initially reduce costs for contractor school buses until FY20 or FY21. If the bill is enacted it is unclear whether current contracts will be amended to reflect the provisions of the bill, or whether current contracts will retain a 12-year cycle with new contracts being negotiated over a 15-year cycle.

On December 21, 2016, the Public School Capital Outlay Council reported financial plan estimates showing a \$12.1 million budgeted deficit at the end of FY19, attributable to \$25 million reserved each year for public school categorical uses. School bus replacement could

qualify for the \$25 million appropriation through legislative action, which authorizes the Legislature to reappropriate the funds each year from FY18 to FY22. However, this may reduce available funding used to offset general fund need in other public school categorical expenditures like instructional materials.

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.

According to PED, 2,064 to-and-from school buses reported more than 29 million miles traveled in FY16. This averages to about 14 thousand miles for every bus annually. Extrapolating the average annual miles traveled to 12 years would equal about 168 thousand miles per bus; 15 years would equal about 210 thousand miles per bus. 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.

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 Legislative Education Study Committee 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.

RELATIONSHIP

This bill relates to HB392 and SB381, which allow certain school districts to provide transportation by means of a sport utility vehicle; HB178, which allows certain public schools to conduct a high school student public transportation bus pass pilot; SB66, which creates separate transportation distributions for school districts and charter schools; and SB170, which increases the minimum student walking distances to school.

TECHNICAL ISSUES

All contractors who have been given an approval letter from PED and have purchased a bus have done so with the understanding that they have a 12 year commitment and obligation to run that bus. According to PED, this bill may pose some legal issues if the state is requiring school bus contractors to run their buses for 15 years when current statute required them to run them for 12 years at the time they were purchased. PED recommends delaying these provisions for contractors until new buses are purchased to ensure that contractor commitments are not changed midway through their original obligation.

OTHER SUBSTANTIVE ISSUES

New Mexico is expected to be eligible for \$17 million from an October 2016 federal settlement with Volkswagen claiming the company's diesel engine emissions violated the Clean Air Act. States may apply for funding from an "environmental mitigation trust," which will 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-fueled engine;
or
- 75 percent of the cost of replacing or repowering the bus with electric vehicle technology.

States can file for beneficiary status in February 2017 and must submit mitigation plans by July 2017. Funding requests from the environmental mitigation trust are scheduled to be available at the earliest in August 2017. Requests must be accompanied by a detailed spending plan that includes a detailed description of mitigation actions, estimate of nitrous oxide reductions, project management plan, detail of cost estimates, description of any cost sharing, and description of the

impact on communities that have been disproportionately affected by nitrous oxide emissions.

PSFA notes, during the previous five fiscal years, the Legislature has appropriated \$31.4 million from the public school capital outlay fund (PSCOF) to replace school buses. Extending the school bus replacement cycle may result in less frequent appropriations from the PSCOF, making more funds available for other capital outlay awards.

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 204 school buses from the 2005 and 2006 cohorts at an estimated cost of \$17.3 million in FY18.

SL/al