

# Cost Effective Student Transportation Options for Minnesota

How Outsourced Transportation Can Result in Cost Savings and Greater Control

By The MINNESOTA SCHOOL BUS OPERATORS ASSOCIATION

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## EXECUTIVE SUMMARY

### *Situation:*

Successfully overseeing the contract for school transportation can be a complex process. There is a potential for a loss of control, questions about costs and concerns over safety and service. If a school district wishes to convert a public fleet over to a private operation, there are a number of legal issues that may arise as well. The occurrence of any of these circumstances could potentially have dire consequences for the school district.

### *Challenge:*

One of the biggest uncertainties for those who contract for ancillary services is that they will have less control of the procedures put in place by the school district. As a school leader, you understand the benefits that can be gained by outsourcing. Contracting for services allows for schools to concentrate on their education focus, while other industry specialists can concentrate on their specialized focus. Careful planning and diligent communication can minimize the risks associated with loss of control.

### *Solution:*

The development of a carefully crafted Request for Proposal as well as a solid understanding of the State Statutes surrounding Contracted Transportation will allow school districts to maintain tighter control and gain the most efficient use of their resources for school transportation.

## **The Benefits of Contracted Transportation**

### **COST**

*Myth: Private contractors have a profit element, so how can they run for less?*

Quite simply, school bus contractors are motivated to run efficient operations. They are professionals who have the knowledge regarding the latest technologies and industry regulations. They also have more at stake because they are not protected by liability limits. It is far more profitable to be safe rather than careless. Furthermore, there are funding mechanisms available to companies that are not options for school districts. Some companies have access to economies of scale that allow them to decrease costs and pass on savings to school districts. Contracting enables schools to become customers in a market of competing providers. If schools don't like the price or service quality of one provider, they can take their business elsewhere. Alternatively, for a provider to stay in business and make a profit, it must attract and satisfy its customers. Such an incentive fosters accountability, because any provider can be replaced if it performs poorly. Through competitive contracting, schools can harness the efficiencies and expertise the private sector offers.

In addition, Minnesota contractors pay sales tax and property taxes that go back into the community and support the educational process. Minnesota owned corporations buy goods and services from local vendors which will cause further re-investment in the community. A 2008 Minnesota School Bus Operators Survey found that school bus contractors are an integral part of the communities they serve. They donated on average \$9000 to local charities each year as well as pay over \$50,000 a year in property and sales taxes.

There have been numerous studies done examining the costs of contracted vs. publically owned school bus operations. School district transportation needs are as wide and varied as the districts themselves. It is an intricate task to compare districts due to their varied and unique needs. Additionally, the accounting methods utilized by school districts often have difficulty separating the various costs of the services they provide because they frequently cross subsidize operations, fail to allocate overhead, and ignore capital costs.

### **MTA Study**

A May 2009 Study by the Minnesota Taxpayers Association looked at transportation costs in Fiscal Year 2007 and attempted to provide a meaningful cost analysis of contracted busing and in house costs. The study found that statewide contracted school busing was 5.03% cheaper than in house transportation. Further, it found that in metropolitan and suburban areas where there was greater density, the gap widened. School bus contractors had significantly lower costs per mile, as much as 24% - 43% less than in-house operations in comparatively sized districts.

## CGCS Study

In April 2008, the Council for Great City Schools released a report that incorporated data from 50 of the largest school districts across the nation, including St. Paul and Minneapolis. The report describes statistical indicators developed by the Council of the Great City Schools and its member districts to measure big-city school performance on a range of operational functions in business, finance, human resources and technology. Transportation was one of the operational functions that were examined using data over three fiscal years. The Council found that contracted school transportation cost less than district owned operations. The median cost of contracted school bus over a one year period was \$52,655. The median cost of a district operated school bus over a one year period was \$59,840. The study surmised that there was some underreporting of district operated school bus costs because the capital and debt service costs were reported in different locations among the districts. Therefore, it felt that the actual district costs could be even higher.

## CONTROL

*Myth: The District will lose control of the transportation program when it contracts out for service.*

The District sets the transportation policies. The District approves the routes. The District sets the budget, which remains fixed over the contract period. The District also sets the service requirements such as on-time performance, training, safety programs and fleet standards. All of these elements result in greater control for the school district. The District can also set the standards for the contractor's employees serving the district. By this way, the District has greater flexibility and control in that the District doesn't have to deal with chain of command, unemployment or other employee issues that may arise. Without the political issues surrounding a publically owned operation, the contractor can be much more responsive to the District's needs. In short, the District sets the standards, while the contractor enforces them. The District can impose penalties into the contract for poor performance issues. Further, by the very nature of the contract process, contracted operations are held accountable automatically on every contract renewal.

## EXPERTISE

*Myth: In-House Departments provide better transportations services than contractors.*

The growing demands and regulations surrounding a transportation system can be quite complex. Unless school districts can afford a large staff, it can be difficult to keep up with all the technological advances, training requirements, and Federal and State compliance issues. Contracted transportation can offer an important advantage in this area. School bus contractors have one area of expertise, getting students to and from school safely. As business owners, they have relationships with state and local government officials. They are involved in professional associations, such as the

Minnesota School Bus Operators Association, that will keep them abreast of new laws and regulations. They have proven track records in areas of routing and fleet maintenance. They have relationships with the Department of Public Safety to address and solve problems that are unique to Minnesota. This specialized focus allows school districts to oversee the direction and control of the entire transportation system, without the preoccupations of managing all the day-to-day aspects that often take time away from education.

## **How to Contract for Transportation Services**

Minnesota Statute 123B.52 governs the contract process for school districts. Subdivision 3 is specific to Transportation it states that districts may contract for the transportation of school children by direct negotiation, obtaining two or more written quotations for the service when possible, or upon sealed bids. School districts are encouraged to use the contracting method that is most suitable to its needs.

### **DIRECT NEGOTIATION/QUOTATION PROCESS**

The quotation process offers school districts flexibility to look at other factors rather than just the lowest price. Careful crafting of the bid specifications is crucial. Districts must carefully evaluate their needs so that all proposals are bidding on the same services. Frequently, one or several parties overlook critical services that are offered by the current contractor. A flawed request for proposal may leave the district with fewer responses or a higher than anticipated price. If there is a contractor in the district or a transportation director, he or she would be a useful resource in developing comprehensive bid specifications.

According to the Attorney General of the State of Minnesota, districts that chose the direct negotiation method are not limited by requirements on terms of the contract. Therefore, school districts are able to determine the best alternative and specific terms for the school district's transportation contract.

At least 30 days before awarding a directly negotiated contract, the district must, by published notice, request quotations for the service to be provided. If a contract is made by direct negotiation, all quotations must be public information. All quotations obtained must be kept on file for a period of at least one year after receipt.

## SEALED BIDS

Sealed bids provide perhaps the least amount of flexibility for the school district. It allows the district to choose only the low price bidder. There is a great risk in accepting the lowest bid without careful examination. It does not allow the district to do any negotiation for additional services that may have been inadvertently overlooked in the bid specifications. The terms for a standard price contract are limited to two years with a renewal option for an additional two years.

If a transportation contract is made upon sealed bids, the school board must first advertise for bids or proposals by two weeks' published notice in the official newspaper. This notice must state the time and place of receiving bids and contain a brief description of the subject matter. Additional publication in the official newspaper or elsewhere may be made as the board shall deem necessary.

After taking into consideration conformity with the specifications, terms of delivery, and other conditions imposed in the call for bids, the transportation contract must be awarded to the lowest responsible bidder, be duly executed in writing, and be otherwise conditioned as required by law. The contractor to whom the contract is awarded is also required to give a sufficient bond to the board for its faithful performance.

A record must be kept of all bids, with names of bidders and amount of bids, and with the successful bid indicated thereon. A bid containing an alteration or erasure of any price contained in the bid which is used in determining the lowest responsible bid must be rejected unless the alteration or erasure is corrected. An alteration or erasure may be crossed out and the correction thereof printed in ink or typewritten adjacent thereto and initialed in ink by the person signing the bid. In the case of identical low bids from two or more bidders, the board may, at its discretion, utilize negotiated procurement methods with the tied low bidders so long as the price paid does not exceed the low tied bid price. In the case where only a single bid is received, the board may, at its discretion, negotiate a mutually agreeable contract with the bidder so long as the price paid does not exceed the original bid. If no satisfactory bid is received, the board may re-advertise.

The term of such contracts must not exceed two years with an option on the part of the district to renew for an additional two years.

## PERFORMANCE ASSURANCE

Benchmarks are the key to satisfaction. A successful transportation contractor will meet the district standards when it has been established in detail what will be expected. Include the contractor in discussions when establishing the benchmarks, he or she may bring new ideas to the process that have been proven successful in other districts. The key is working together to arrive at solutions that satisfy both partners.

Such performance issues may include:

- Driver Qualifications/Training
- Yearly Motor Vehicle Reports
- Drug and Alcohol Compliance
- Student Management Reports
- Student Bus Safety Training
- Fleet and School Bus Inspection Data
- Standards for and definition of on-time arrivals and departures
- Accident Data and Resultant Issues
- Unforeseen challenges such as fluctuations in fuel costs or driver shortages

Holding the contractor accountable will require establishing a method to monitor compliance with the contract, reviewable at both intervals during and at the end of the contract period.

## CRAFTING AN REQUEST FOR PROPOSAL

A Request for Proposal, also called an RFP or RFQ, is a document issued by a school district when it wants to buy something and chooses to make the specifications public. This usually is done to have several companies bid on the work, thus producing more competitive prices. However, if it is not done correctly, it can produce no bids or bids that are a waste of your time. Before you start to write an RFP, figure out what you really need, what you want, and what is possible.

The steps to a successful RFP are detailed below.

### **1. Distinguish Between Needs and Wants**

Things that are needed are identified in the RFP but using words like "will", "shall", and "must". These are the "requirements". Those things that are merely "wants" are identified by words like "may", "can", and "optional". Consider that many options will have an additional cost. Common options may set a limit on the age of the bus, limit the length of the route, or require indoor storage for vehicles. When considering proposals it is imperative to make sure everyone is on the same page when it comes to what the exact requirements are for your district. If a district is currently contracting for transportation, they may be receiving services that were never specified in an RFP. Many times a new contractor can compete by running a "bare bones" operation. A district may suddenly find themselves stuck with a lower quality transportation system because they neglected to determine what was important to their district. Or perhaps they find that the new contractor is willing to provide the level of service they were accustomed to, but at a much higher cost. You may wish to have a informational meeting for all interested service providers.

### **2. Establish a Selection Criteria**

The proposals in response to the RFP will differ. Each company that responds will have different strengths. Some will focus on lowest cost; others on best quality; still others on most complete feature set. Again, make certain that your district decides up front whether you are looking for the lowest cost, highest safety record, experience, level of service or some combination.

### **3. Introduction**

This is where you explain to potential bidders why you are publishing the RFP and what you hope to achieve by doing so. The introduction may also include a summary of the key points from the other sections, including due date. Continuing with the example above of an RFP for an image transmission system, the introduction might read

something like this: Notice is hereby given that ISD # 100, located at 101 Oak Ave, Anytown, MN will receive written quotations until 10 AM CST, Wednesday, January 21, 2009 from qualified service providers interested in providing District Student Transportation Services for up to four (4) years commencing with the 2009-2010 school year.

#### **4. Specifications**

This section is one of the most important and it usually takes the most time. Based on the districts predetermined needs, the district should specify the number of students, the number of schools, bell times, special transportation needs, extra curricular needs, District policies on eligibility, service plans, and relevant rules of conduct. Be sure to specify what you need, not how it is to be done unless that is essential. Some contractors may have ideas on ways to improve efficiency that is missing from your current transportation program.

#### **5. Determine the Process**

In this section you explain how the process will work - from sending out the RFP to awarding the contract and starting the work. Establish due dates, who will read the bids, and how winning bids will be awarded.

#### **6. Decide Who to Send the RFP**

Potential vendors can be found through your professional network, by searching on line, or by asking trusted colleagues in other school districts. The MSBOA is an excellent resource and will provide directories for school districts that are looking for responsible bidders. You may find better ideas and even better pricing from smaller vendors who are more interested in winning your business.

## TESTIMONIALS

*There are numerous functions that would not be delivered as efficiently or as cost effective as contractors. Contractors:*

- 1. Provide for full time administrative scheduling, dispatching, maintenance, and mechanical work that we could not duplicate.*
- 2. Provide skilled routing and interaction with individual parents that expedite getting students placed on routes as well as dealing with special needs transportation bus and route modifications.*
- 3. Provide direct response to parents with bus or disciplinary concerns reducing school administrator's time dealing with these issues.*
- 4. Handle all human resources functions for bus drivers and transportation staff including recruitment, hiring, training, discipline, payroll and benefits.*
- 5. Provide better integration with extra curricular transportation when the contractor has charter services in addition to regular student transportation.*

*Tom Stringer, Northfield Public Schools*

*Today, with so much pressure to improve education and live within a budget I find that privatizing transportation is a blessing especially if a school is satisfied with the vendor. At Lake City, we have two excellent vendors who employ and train competent drivers, purchase and maintain excellent equipment, and delivers perfect service. In my two years as superintendent I have not received a complaint concerning our bus service. As superintendent of schools, I find it's a blessing to have competent bus contractors who train their drivers and provide excellent service.*

*Clayton A. Hovda, Lake City Schools*

*As a superintendent of two districts that have outsourced its transportation service, I am a proponent of this delivery of service to our families. The key to this relationship is communication and the development of a true partnership. Recruiting and training bus drivers, disciplining students, route development, purchase and servicing bus, maintaining codes, and purchasing fuel are a few of the many tasks that are taken off of district personnel's work load so we can concentrate on educating students.*

*J. Ness, Fergus Falls Schools*

*Contracting transportation services had enabled our school district to bypass the political and personnel issues associated with public ownership of bus services. It is becoming more common for individuals to aggressively pressure public entities to operate in a manner most convenient for them - even if it means others have to be*

*inconvenienced. When bus services are publicly owned parents feel empowered to politically lobby or brow beat school officials to achieve their objectives. This same perception is not nearly as prevalent when bus services are privately administered. This leads to greater objectivity and fairness for all riders. In addition, labor contracts for publicly owned bus services generally exceed those in the local labor market. Private ownership of transportation services is more effective in arriving at local labor costs which reflect local costs and as a result generally operate more efficiently. Ultimately, this lowers the transportation expenses for the school district.*

*Steve Niklaus, Annandale Public Schools*

## FREQUENTLY ASKED QUESTIONS

1. When converting an existing district owned fleet to privately contracted - What happens to the employees?

Contractors want to hire local experienced school bus drivers. In a 2007 nationwide study of conversions that occurred over a 6 year period, 94% of the school board-employed drivers were offered jobs with the incoming contractor. Of those who were not offered jobs, the most common reason was that they did not meet the contractor's standards. Furthermore, it was discovered that driver wages under the contractor were 103% of the wages drivers earned under the school district.

2. When converting an existing district owned fleet to privately contracted transportation, what is the process for getting appraisals and disposing of the existing equipment and real estate?

The Minnesota School Board Association has prepared model policies for School Boards to follow when disposing of existing equipment and real estate. It is likely that your School Board has an existing policy in place. Regardless, school districts are authorized to dispose of obsolete equipment and materials by selling it at a fair price consistent with the standards outlined below.

Sales of \$25,000 or less. The contract (for sale of equipment) may be made either by (1) requesting quotations or (2) in the open market. If a school district requests quotations, such requests must be given by publication (or other means appropriate to provide reasonable notice to the public. The sale must be based on at least two quotations which must be kept on file for a period of at least one year after received. If the sale is made by open market, it may be made by auction with notice to the public.

Sales exceeding \$25,000 but not \$100,000. The contract (for sale) may be made either upon (1) direct negotiation or (2) sealed bids. Direct Negotiation may be had by obtaining two or more quotations for the purchase or sale when possible, and without advertising for bids or otherwise complying with the requirements of competitive bidding. The process for obtaining sealed bids is described below.

Sales exceeding \$100,000. If the value of the equipment is estimated to exceed \$100,000, sealed bids shall be solicited by two weeks' published notice in the official newspaper. The notice must state the time and place of receiving bids and contain a brief description of the subject matter. The sale shall be awarded to the highest bidder, be duly

executed in writing, and be otherwise conditioned as required by law. A record of all bids shall be kept on file for a period of at least one year after receipt (including names of bidders, amounts of the bids and indication of the successful bid). There are special rules for identical high bids for two bidders. Data submitted with a bid is private until opened; once opened the name of the bidder and amount becomes public data. After the selection process is complete, there are special rules for what part of the bids are private and public data.

#### Procedures for Selling School Owned Real Property (land, buildings and other structures)

- (1) The school board must authorize the sale or lease of the real property.
- (2) Upon authorization, the superintendent or designee will obtain an appraisal of the property, advertise the availability of the property, solicit bids for the property and recommend approval or rejection of the bids to the board.
- (3) Final sale must be approved by the board.
- (4) Sale of real property must be reported to the Minnesota Commissioner of Education in accordance with state law.
- (5) Proceeds from the sale must be placed in the appropriate districtwide fund.

#### 3. How should union issues be handled when changing to privately contracted transportation?

If school district drivers are represented by a union, the District should consult with its labor counsel as it evaluates making a conversion to privately contracted transportation. The District's collective bargaining agreement with unionized members may prohibit its ability to make such a conversion. In addition, if unionized employees will lose their employment, the District will have a duty to negotiate with the union over the effects upon those employees.

#### 4. What are some of the reasons that districts chose to use privately contracted transportation?

In the aforementioned nationwide study:

66% cited cost savings;  
29% cited service and operations problems with in-house system;  
16% cited an aging fleet.

It is important to be clear why you are making a change to your transportation system. Contractors want to provide solutions to school districts.

## 5. What makes a quality School Bus Contractor?

**RELIABILITY AND TRUSTWORTHINESS** – Contractors should be following all State and Federal Laws. They should be aware of complacency issues by having solid training and retraining measures in place. They should be conducting behind the wheel evaluations and have procedures in place to address less than desirable safety performance. They should be adaptive to changes in the district and work with the district to solve problems.

**COMMUNITY INVOLVEMENT** – Contractors ideally hire locally and provide competitive wages and benefits. They recognize that their success and the success of the community as a whole are contingent on the success of the school district. They support re-investment in the community and the school district by paying sales tax and property taxes and making purchases from local vendors.

**DOT RATING** - The Department of Education provides a safety rating called SAFE STAT. This rating should be examined in combination with references from districts that may have used the contractor in question.

**DEPARTMENT OF PUBLIC SAFETY** – In January 2009, the Minnesota State Patrol will be publishing the results of the annual school bus inspections on their website. This measure will give insight to fleet maintenance issues that may be present with substandard contractors.

**PROBLEM SOLVING** - Of course, complaints will happen especially if the District has made sweeping changing to its transportation system. However, the contractor should be responsive and provide workable safe and efficient solutions to transportation challenges as they arise.

## ABOUT THE MINNESOTA SCHOOL BUS OPERATORS ASSOCIATION (MSBOA)

<http://www.msboa.com>

The Minnesota School Bus Operators Association was established in 1948 to serve and represent private school bus contractors with a unified voice. The Association represents a diverse mix of small, rural operators to large, multinational corporations. The mission of the MSBOA is to advance the passenger transportation industry's image, overall safety, efficiency, and reliability. Furthermore, it works to develop and distribute educational programs and solutions. It establishes relationships with Federal, State and Local government officials to positively influence Federal and State government actions. The MSBOA is proud to advocate ethical operations and provides a means to establish and maintain relationships with fellow industry professionals. It strives for a healthy business environment for all of its members. As its tagline suggests, the MSBOA keeps safety as its utmost priority.

## ADDITIONAL RESOURCES

### *The American School Bus Council*

<http://americanschoolbuscouncil.org>

The American School Bus Council represents more than 625,000 school bus industry professionals. Its mission is to educate parents, school officials and lawmakers about the essential role the yellow school bus plays in the safety, health, and security of America's schoolchildren while providing access to school. The Council advocates for school transportation funding and promotes industry standards on driver training, use of new technology, and safety measures that exceed state and federal law.

### *Minnesota Office of the Legislative Auditor*

<http://www.auditor.leg.state.mn.us/ped/2008/studenttrans.htm>

The Minnesota Office of the Legislative Auditor issued a report in January 2008 regarding school transportation in Minnesota. It found, in part, that some districts do not use sufficient oversight of its transportation contracts. The Minnesota School Bus Operators Association applauds the efforts of the Legislative Auditor's Office and urge school districts to make certain that they hold contractors to the level of safety and accountability that the children of Minnesota deserve.

### *The Minnesota Department of Education*

[http://education.state.mn.us/MDE/Accountability\\_Programs/Program\\_Finance/Transportation/index.html](http://education.state.mn.us/MDE/Accountability_Programs/Program_Finance/Transportation/index.html)

The MN DOE website contains a number of resources regarding the laws pertaining to pupil transportation as well as a frequently asked question section. The DOE has developed a Best Practices Guide as well as a Model Contract for school districts. The Minnesota School Bus Operators applaud these efforts but would caution districts that these documents are meant only as a starting point for discussion purposes. They are not meant to be used as the solitary authority on contracted school transportation.

### *The Department of Public Safety*

<http://www.dps.state.mn.us/patrol/comveh/schoolbus/index.htm>

The Minnesota State Patrol oversees the annual school bus inspections. In 2008, the Minnesota State Legislature further established the role of the State Patrol by creating the Office of Pupil Transportation which is head by a Lieutenant of the State Patrol. This

lieutenant's duties include working with a stakeholder group of school bus industry representatives in the development of school bus safety laws and policies, supervising preparation of the School Bus Inspection Manual and establishing best practices for private contracts. The State Patrol will also conduct audits at school districts and contractor locations to ensure compliance with mandated employee background and license checks, including controlled substance and alcohol testing requirements.