

DPS New Bus Purchase: buy 30 buses, or finance or lease 60 buses or 115 buses?

ISSUE: DPS' bus fleet consists of a total of approximately 200 old school buses, average age 14 years, oldest bus being 27 years old. Old buses present safety risks, along with escalating maintenance & operating costs, is not fuel efficient.

FACTS: DPS Budget for New Bus Acquisition in 2016-2017 budget - \$2.6 million

New bus prices loaded to DPS specs with 10 year warranty:

regular bus (\$87,130)	special needs bus (\$96,631)
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PROBLEM:

1) Price escalations - because of expiring incentives and government credits, along with increased prices of steel and stricter safety regulations, the Ohio Association for Pupil Transportation (OAPT), OASBO and the ODE Pupil Transportation Office estimate that the price of new bus will escalate from approximately \$86,000 in 2017 to approximately \$100,000 in 2018, and \$103,000 in 2019, and beyond.

2) Maintenance costs - School Transportation News Magazine recently surveyed its readers to determine how much school bus maintenance costs, on average. Based on the response of their readership, they calculated an estimated cost for fleets with over and under 100 buses. These estimates include pricing for parts and labor. According to these results, the **average cost of school bus maintenance for districts that operate more than 100 vehicles is just over \$5,500 per year**. The average age of buses in fleets of both sizes was reported as 6 to 10 years. Of course, the newer the buses, the less they generally cost to maintain, but on average, labor expenses ran around \$1,500 to \$1,600 per bus.

Meanwhile, according to the Fayetteville-Manlius School District website, average maintenance costs for buses increase from about \$1,000 per year during the first three years a bus is in service, to an average of about \$2,000 for years seven through nine. The annual maintenance cost for a 10-year old bus typically exceeds \$6,000. In year 11, maintenance costs could approach \$10,000. The largest repair expense in those later years is typically related to under-body corrosion. That damage, which can make the bus unsafe, can be difficult for the casual observer to see.

Incidentally, according to the 7/21/2016 memo from DPS Transportation Director to the DPS Operations Department Executive Director, "excessive rust on the vehicle that compromises the integrity of the vehicle both inside and outside the vehicle."

INITIALLY PROPOSED SOLUTION: use the entire \$2.6 million to purchase exactly 30 (regular) school buses. Then do the same for the next 5 years (in 2018, 2019, 2020, 2021 & 2022) until replace about 180 buses.

Problem with the initial solution: 1) replacing 30 buses per year out of 200 total does little to either mitigate safety and security risks, or the maintenance and operating costs of \$6,000-\$10,000 on average per year per 10+ year old bus).

2) if in 2017 the 30 new buses would cost \$2.6 million, then in 2018 they are estimated to cost already

\$3 million, and in 2019 almost \$3.1 million. Even if we assume \$3.1 million for years 2020-2022, that's a significant extra financial outlay that's entirely avoidable and is simply unaffordable.

3) There is no guarantee that DPS could afford to spend \$3 million per year on new buses.

BETTER SOLUTION: either lease or finance the maximum number of buses that could be afforded today, which would be 110-115 brand new buses. This solution is supported by bus drivers and mechanics, operations department, transportation experts, parents, and of course if, on top of all, it's a better deal financially, then any taxpayer.

The overall best financing deal is a 7 year loan, which costs \$1.5 million per year for 7 years.

Lease deals are forthcoming, it might be that leasing would be an even better value for DPS.

DPS 110-115 New Buses Financing Options

Lender	Loan#1 for 110-115 buses	Loan#2 for 110-115 buses	Loan#3 for 110-115 buses	
Loan Amount	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	-
Interest Rate	2.0000	2.0000	2.0000	- %
Length of Loan	5	7	10	- Years
Additional Principal	-	-	-	- Each Month
Monthly Payment	\$175,277.61	\$127,674.36	\$92,013.46	
Total Interest	\$516,656.05	\$724,645.39	\$1,041,614.43	
Total Paid	\$10,516,656.05	\$10,724,645.39	\$11,041,614.43	
Payoff Time	5 Yrs	7 Yrs	10 Yrs	
Number of Payments	60	84	120	
<u>Annual Cost</u>	\$2,103,331.32	\$1,532,092.32	\$1,104,161.52	