

Hempfield

RFP Summary – TRANSPORTATION

In an effort to evaluate costs for the 2009-10 fiscal years, I provide this summary of the key points that need to be considered if the district wants to evaluate outsourcing the student transportation services. Outsourcing is not the final nor is it the only option available to the district. Outsourcing is one of a couple solutions available to the board. The union representing transportation employees should be invited in to these discussions at this early stage. It is also recommended that this analysis and supporting documentation be provided to the union representing the bus drivers and mechanics. We are all in agreement that it is in the best interest of the district to evaluate all possible solutions available to contain costs, thereby curtailing or eliminating additional impacts on the educational experience for students of the Hempfield Area School District.

The summary will discuss the following key factors:

- Safety
- People
- Facilities
- Equipment
- Fuel

SAFETY: Our main priority is safety. Safety is based on a proactive approach to managing the transportation unit. The following points should be considered:

- Driver safety and training programs
- Maintenance programs
- Student safety programs

Hempfield does not have a documented maintenance or preventative maintenance schedule. I'm unaware of a documented driver safety program or student safety program. The RFP requires proposers to detail out their documented process and procedures around the three topics above. For the district to establish benchmark standard programs around the following would cost considerable additional expense in consulting, training and catch-up support. Transportation providers have dedicated safety coordinators. This would be an additional cost to the district.

PEOPLE: Our people are very important to us. They are our neighbors, friends and family. Unfortunately, we can't expect 2009-10 budget year to offer us any reprieve given the current state of the economy. People costs account for 44% of the 2008-09 budget or \$2.6m. of the \$5.9 transportation budget. The following table represents the 2008-09 budget:

<i>Driver Wages</i>	1,467,151.00
<i>Driver Benefits</i>	782,998.87
<i>Mechanic Wages</i>	163,501.00
<i>Mechanic Benefits</i>	62,048.76
<i>Administrative</i>	118,880.00
<i>Admin Benefits</i>	49,109.82

Exhibit A contains a schedule of possible savings. The district can save \$293K in driver and mechanic wages in 2009-10 with a \$3 per hour average reduction in hourly rate based on the budgeted 89,000 hours. We can assume that a contractor will pay wages between 2.50 and \$4.00 per hour less than our current budgeted average \$16.48. The district can save an additional \$243k annually by charging 50% of the cost of insurance back to the drivers. If a contractor even considers offering the current level of insurance currently offered by the district, it is very common to charge 50% of the cost to the employee. Many contractors either offer a lesser cost offering or no company sponsored plan. Finally, if the contractor ceases to pay into the retirement, the savings would be \$116K annually.

\$3 per hr reduction in average rate =	\$293,000
Minimum 50% co-pay for medical=	\$243,000
No retirement plan costs =	\$116,000
Total Potential Savings =	\$652,000

A contractor would possibly take the above approach to reducing people costs within the transportation unit.

The RFP will not specify a requirement for wages, benefits or retirement. The RFP will require that the proposers offer detailed schedules showing benefits, retirement offerings and compensation plans. The district will weigh the comp and benefit offerings with the costs. The district will look for a balance of both in identifying the best offer.

FACILITIES: The district will require the proposer to rent the facility for a monthly rent of \$4,500.00 per month. We **should not** require the lease be Triple net as this will cause proposers to build a maintenance risk factor into the bid. Instead, the district will require routine maintenance and utilities be covered. All structural repairs will be responsibility of the district.

In addition, the contract will have a stipulation that requires the contractor to notify the district of any business being handled out of the garage that is not specific to Hempfield. In this case, the district will raise the monthly rent by \$1,000.00 per month at the point the new activity begins. The district can evaluate the contractor's activities when the contract expires and further adjust the charge back through negotiations.

It is known that in effect, charging for the location, only means the charges end up in our pricing from the contractor. Charging for the location provides a base value by which to base future negotiations and also generates an opportunity cost decision for the contractor that would otherwise not exist.

EQUIPMENT: the proposer to offer a price for the entire fleet. A couple strong facts support this decision:

- As of the 2009-10 FY, the fleet will have 28 vehicles over 10 years old or older.
- Preventative maintenance is not a current practice. This means the fleet may be in generally unhealthy condition. P.C has commented to this point as well.
- 20 additional buses require payment from general operating fund for lease payments as follows \$278K (2009-10) and \$65K (2010-11) for a total of \$343K.

Based on conservative estimates, the district should expect \$1.7M for the entire fleet (inclusive of lease payments –buyout). This would leave the district with approximately \$1.3m that could be applied to specific district use. It is also wise to keep in mind that if the district does not outsource, we will need to upgrade 28 buses that will be over 10 years old (with the majority of these being in excess of 12 years old).

FUEL: The district will require proposers to pay the first \$3.00 per gallon for transportation fuel usage. By charging an amount deemed to be lower than estimated bottom rates but still considerable in value, we offer incentive to the contractor to conserve fuel usage. By keeping the district responsible for fluctuation above \$3 per gallon, we alleviate the contractor/proposer from charging the district a risk factor up charge to cover their uncertainty.

OTHER CONSIDERATIONS:

- RFP will require two separate bids
 - Regular dedicated routes to include after school activities and athletics.
 - Special needs and parochial routes
- Additional savings related to operational effectiveness and efficiencies will be had by contractors in such areas as (see exhibit B):
 - **Bus parts/Inventory**-Currently, the bus garage has no internal control structure around inventory and equipment. Min 10% off current 08 budgets.
 - **Engine/Transmission Repairs** – With no current preventative maintenance program in place, a contractor will find longer life and less big dollar spend. No less than 10% off 08 budgets.
 - The District will also see a slowly decreasing workers comp rate across the district over the next three years as 20% of claims are generated in transportation.
 - Back-office administration costs, not readily quantifiable will also be reduced in the district.

See the attached financial statement that breaks down possible costs savings areas by expense line item. The figures will break down to a total savings that can be translated into a per route amount. Use the Proposer Scenario document to see the impact on bottomline transportation costs by looking at cost per route.