



National School Transportation Association

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## **Statement Submitted for the Record**

**to the**

### **U.S. Senate Select Small Business and Entrepreneurship Committee**

### **Hearing on the Impact of High Gas Prices on Small Businesses**

**June 14, 2007**

The National School Transportation Association is the membership organization for school bus companies that provide pupil transportation. Our members are private businesses engaged primarily in transporting public school students to and from school and school-related activities for the tens of thousands of school districts across the country that choose not to operate their own school buses. In addition, our member companies provide specialized transportation for students with disabilities, community transportation, charter service, emergency transportation in times of need, and other transportation services. NSTA members range from small family businesses serving one district to large corporations operating thousands of buses across many states, all committed to the safe, efficient and economical transportation of America's children.

The National School Transportation Association (NSTA) appreciates the opportunity to present this testimony to the Senate Small Business and Entrepreneurship Committee for its hearings on Gas Prices and Small Businesses. NSTA members—approximately 85% of whom are small business owners—have suffered the effects of rising fuel costs for almost three years, and have run out of ways to compensate.

## **School Transportation and Small Businesses**

Each weekday approximately 475,000 yellow school buses travel the nation's roads. Our fleet is 2.5 times the size of all other forms of mass transportation—transit, intercity buses, commercial airlines and rail—combined. About 30% of these buses are owned and operated by private companies or individual entrepreneurs; the others are publicly-owned.

Ninety percent of the private school bus contractors in the country qualify as small businesses. In fact, one-third of them operate five buses or fewer. Many are third and fourth generation family operations that are trying to hold on to their businesses in the face of rapidly increasing costs and chronically short school budgets. Many of the very small entrepreneurs contract with rural school districts to service one or two routes. These individuals invest \$75,000 to buy a school bus, and then pay for training and licensing fees, maintenance and insurance—for a contract that in some areas of the country pays them \$15,000 a year.

## **The Role of School Buses in Education**

According to statistics from the U.S. Department of Education for school year 2002-2003 (the latest available), 56% of the 45 million public school students in the U.S. depend on school buses to access their education. That's 25 million children every school day—and that number does not include students who are not transported at public expense, such as many private and parochial school students. Public expenditures for pupil transportation in constant 2004 dollars totaled \$16.4 billion in 2003, compared to \$12.1 billion in 1990, when we were transporting 59% of our students. The per-pupil cost of transportation rose (again in constant dollars) from an average of \$565 in 1990 to \$654 in 2003. Note that these figures are for operating costs only; they do not include capital expenses, such as bus replacement. As you can see, transportation costs were rising steadily before the fuel crisis hit in 2005; they have spiked since then.

During the school year school buses make more than 50 million passenger trips daily, compared to public transportation's 32 million trips daily. And our buses are not idle during the summer—we continue to transport students to and from summer school, specialized learning programs, summer camp, and other activities.

## **The Role of School Buses in the Community**

In addition to providing access to schools, school buses play an important role in mitigating traffic congestion and reducing pollution in their communities. If the average school bus represents 50 personal automobiles that are not being used to ferry children to and from school, imagine what would happen if a fleet of 25 buses in your town were suddenly pulled from service. More than a thousand more cars and trucks would flood the neighborhood streets and commuter highways during morning rush hour, clogging the roads, backing up traffic near schools, and spewing exhaust into the air. Multiply that by the larger numbers in larger cities, and you can see the important ways in which whole communities—not just parents and students—benefit from the use of school buses.

In addition, notwithstanding the poor mileage rating for school buses (8-11 mpg), one school bus uses significantly less fuel than 50 cars and SUVs. Given the size of the nation's school bus fleet, replacing even 25% with personal vehicles—that's 6 million more vehicles—would have a significant detrimental impact on the nation's fuel usage and energy dependence. The ramifications would be felt by all citizens, whether or not they have children in school.

## **School Transportation Funding**

School transportation is funded almost entirely by state and local government. The Federal government provides no funding source for routine home-to-school transportation or school activity transportation. (In fiscal year 2003, the first Federal funds became available for school buses when the Environmental Protection Agency provided \$5 million for grants to reduce diesel emissions as part of their Clean School Bus USA program; approximately \$22 million has been distributed since then.)

States vary considerably in the percentage of transportation funding they provide to local school districts—from 0% to 100%. They also vary considerably in their funding mechanisms and their transportation requirements. Eleven states do not require school districts to provide transportation at all (with the exception of students with special needs), and of the others, many require it only for elementary students.

As state governments face their own cutbacks and decrease their expenditures, a larger burden falls on municipalities to support school transportation. Even though transportation represents just 4% of the total school budget on average, it is one of the first targets when districts must reduce expenditures, particularly in states where there is no mandate.

## **School Bus Contracts**

School bus companies contract with public school districts to provide transportation service in a wide variety of ways. The one-bus owner who contracts for single routes is at one extreme; management-only contracts are at another. The most common contract is for full service—that is, the contractor provides the buses, the drivers, the dispatchers, maintenance, and management.

The contractor is responsible for all operating costs, and is at the mercy of cost fluctuations during the life of the contract. Contracts can range from one year to five years, the latter being the most common. A few contracts contain escalation clauses, or provide the opportunity to re-open the contract in the event of unforeseen circumstances, but most do not. A survey conducted by NSTA at the end of 2005 showed the average yearly increase in contract prices was 2.7%. (These were future-year increases in contracts in place at the time.)

### **The Effect of Fuel Price Increases**

From September 2004 to September 2005, the price of diesel fuel increased an average of 58%, almost a dollar a gallon. Though prices slipped back somewhat in 2006, they are on the rise again and in many areas, have reached or exceeded the 2005 highs. Also, contrary to past experience, diesel fuel prices increased to more than 20 cents higher in most states than the price of regular gasoline. In addition, our members are having to absorb the increased cost of the new ultra low sulfur diesel fuel and new clean diesel engines mandated under Federal law, which will greatly reduce harmful emissions from the Nation's diesel fleet but which add more than \$6,000 to the cost a new school bus. While high fuel costs affect all modes of transportation, other transportation modes are better able either to absorb the costs or to pass them on in the marketplace. Neither school districts nor their transportation contractors are able to pass on the increased costs to the students they drive to and from school every day.

As this crisis has been going on now for almost three years, we have already implemented all of the fuel-saving tricks in our bag. Our members have eliminated unnecessary idling, rerouted buses for efficiency, consolidated bus stops, trained drivers in fuel-efficient driving practices, increased maintenance for fuel economy, and reduced deadheading. Many have changed the way they buy fuel—installing larger tanks for bulk purchase, for example, or even hedging fuel purchases.

Even with these measures, our members cannot keep up with the increases. One contractor in New York State reports that during the past school year, fuel cost represented 6.3% of revenues, up from 0.85% ten years ago. An Ohio contractor reports that during the past school year, he spent more than \$1 million on fuel to service two school districts.

Clearly, with contract price increases averaging 2.7% and fuel prices increasing at an average 58.4%, contractors are being squeezed. School boards, for the most part, are not in a position to help, since their budgets are also hit with higher energy costs. Already, some schools have been forced into drastic cuts in service—which, of course, further hurts the contractor by eliminating revenues.

One of the more common responses to budget gaps caused by energy costs has been to shift students from the dedicated school bus service provided by small business owners to public transit. Not only does that jeopardize small school bus companies, but it puts students at increased risk when they are thrust into the uncontrolled environment of public transit. The superiority of school bus equipment as well as driver qualification, training and responsibilities, plus the exclusive nature of school bus service, combine to provide our children with a controlled

environment that offers protection no public transit service can match. Parents understand this, and in many districts—such as New York City—they refuse to accept the administration’s decision to exchange school buses for public bus passes.

## **What Can We Do?**

We understand that the increase in fuel costs and our energy dependence affects more than school bus companies, but we also know that it hits our small business members particularly hard.. Transportation is not an ancillary concern for us; our businesses depend on the availability and affordability of fuel. We know that Congress is tackling this issue on many fronts, and our industry has supported efforts to increase supply through more refinery capacity and reasonable exploration of oil, and to protect consumers against price gouging. The school bus industry has been one of the first to incorporate biodiesel as a way to reduce pollution and stretch diesel fuel. Our manufacturers are producing more alternative vehicles, including new hybrid buses. But these are long-term solutions; they are not realistic measures for school bus contractors in the immediate future.

There are some possible relief measures, though, which we would like to suggest:

- 1) We propose that Congress enact an energy tax credit for school bus companies to encourage purchase of cleaner, more energy-efficient fleets and the infrastructure necessary to operate them. The Energy Policy Act of 2005 contained tax incentives for a variety of alternative-fueled vehicles but did not address the overwhelming vehicle of choice in the school bus industry—diesel powered buses that provide the most reliable and durable vehicle at the lowest cost to school districts. The existing tax credits should be expanded to include diesel vehicles which are vastly improved over older models in terms of emissions, while providing the best fuel economy using the new cleaner burning ultra low sulfur fuel.
- 2) The Congestion Mitigation and Air Quality (CMAQ) Program, administered by the Federal Highway Administration (FHWA), is a grant program to the states funded through the Highway Trust Fund. We have asked FHWA to encourage states to include the purchase of new school buses in their grant programs. Increasing private school bus fleets is an effective way to reduce congestion and pollution. We have also asked FHWA to undertake a national public education campaign to encourage greater use of school buses as a way to cut down on the use of personal vehicles, thereby reducing fuel usage.
- 3) We propose that Congress enact an investment tax credit and other incentives for school bus manufacturers to encourage production of energy-efficient and alternative-power buses. We understand that the Senate Energy and Natural Resources Committee is moving legislation (S. 1115) that would allow vehicle manufacturers to take advantage of Federal grants and loan guarantees to assist in expanding energy-efficiency manufacturing.
- 4) We support Federal assistance to school districts to offset the increased cost of fuel, such as offered last year by Congressman Baca’s bill (H.R. 4158) to provide up to \$50 million per year in grants to our poorer school districts to help pay for school-related energy costs, including for

transportation fuels. We understand that Congressman Baca may reintroduce this bill soon and we support its favorable consideration by the Congress. We note, however, that such assistance will help private companies only if the funding is available to schools with contracted transportation, and those districts are willing to apply on behalf of their school bus provider. A better solution for small businesses is to allow them to apply directly for the grants as well.

5) We encourage Congress to provide funding for Federal mandates on the school bus industry. New safety standards, environmental standards, and security standards, for example, create increased costs that make school transportation less affordable and contribute to reductions in service. The House has passed the Rail and Public Transportation Security Act (H.R. 1401) legislation that includes a provision to require that the Department of Homeland Security undertake a thorough threat assessment of the Nation's school bus fleet. This is the first step in providing access to Federal funds dedicated to addressing security threats. Thus far, school bus companies have had to bear essentially all of the cost of increasing security needed to meet potential terrorist and other threats.

## **Conclusion**

As fuel costs go up due to the increased cost of energy, everyone feels the burden, including parents who pay for gas to drive their children to school. Already schools are seeing a difference; in a recent survey, 60% of districts reported an increase in ridership presumably due to fuel prices. The higher fuel prices go, the more attractive riding the bus becomes. Unfortunately, schools and their school bus contractors are caught in a difficult financial irony: they are being asked to accommodate more students for the same reason that they are being forced to cut service. It's a situation that can't be resolved without additional resources.

We urge Congress to work with us to ensure that school transportation and the small businesses that play a significant role in providing it remain a viable option for all schools. Our members cannot continue to absorb escalating energy costs, and their school district customers cannot afford to relieve them of the burden. States and local municipalities can no longer fund this on their own; they need your help.