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Emily E. Heatwole  
South Carolina House of Representatives  
Ways and Means Committee - Budget Analyst  
525 Blatt Building  
Columbia, South Carolina 29201

Ms. Heatwole:

We appreciate the opportunity to work with South Carolina Legislators and School Districts to overcome the obstacles facing the State with regards to its aging school bus fleet. Our response below is intended to share our experience in student transportation, provide some honest feedback regarding the latest committee request and offer some recommendations toward achieving a solution.

### **Specific Cost Data**

The questions from the committee ask for cost information for the provision of student transportation. It would be irresponsible and potentially dangerous if any vendor provided specific cost-related data for your system without a set of clearly specified parameters. There are many variables affecting overall system cost: driver wages, route hours, health benefits and retirement, route mileage, age of fleet, etc. Wages alone generally make up more than 50% of student transportation costs and wage rates vary by \$5 per hour depending on the district and area of the State. So a 50% miss on wage rate could cause a 25% margin of error on our cost estimate. That is unacceptable.

If any vendor provides you with a low-ball estimate simply to convince you to privatize transportation they are not being a good partner, nor are they providing a good long-term solution for the State. Our recommendation is that you provide contractors a very specific scenario; either, 1) an actual school district scenario, or 2) a set of specific assumptions that can be used to make an apples-to-apples comparison with current system costs.

### **Potential Cost Study Scenarios**

Attached to this letter is one possible scenario for dividing the current 85 School Districts and 44 Maintenance shops into Operating Units that could be contracted as groups. The districts and shops in the list are grouped with the maintenance shop as the common denominator such that no district would be served by more than one Unit. The result is 29 Operating Units ranging from 58 buses at a shop dedicated to one district to a 581 bus group with 12 districts and five shops. The smallest unit provides the critical mass of routes to warrant a contractor setting up a new operation, and the largest is of a size that is manageable and benefits from economies of scale. All of the interested vendors have experience sufficient to operate the units on the smaller end of that range. First Student and other national vendors have experience operating locations in excess of 600 buses.

You could select one or several of these Operating Units, gather the operations data needed for accurate pricing and request that all contractors respond by pricing these specific scenarios. You might choose three units: One small, one medium and one large. In that manner you would get a feel for the effect of economies of scale as the sizes of the Operating Units grow.

### **Fleet Age Barrier**

The age of the current fleet is a major issue in the current cost structure and the provision of a significant number of new vehicles would drive costs up unnecessarily. Therefore we recommend that the state modify its age requirements for buses during a transition period. During that time contractors could provide a mixture of new and used equipment that would significantly decrease the current 28 year maximum age and 18 year median age. This provides a more economical path to achieve a renewed fleet within a designated period of time without driving up cost.

### **Questions from the Committee**

The following are the questions asked by the committee and our responses. I am also attaching First Student's RFI response which was provided to the Office of the Governor on May 24, 2011. This RFI response provides additional information for those who may not have seen the document prior.

### ***Bus Drivers – Cost to provide the driver: Information about the type of compensation package offered to include retirement, insurance, etc., as many drivers are currently district employees and receive state benefits.***

Our compensation package for the drivers and aides is specifically designed for the individual workgroup based on several factors. We attempt to keep wages whole in an outsourcing transition because we want to hire as many of the existing employees as possible – typically hiring more than 90%.

First Student has a wide array of benefit options for drivers and aides which are chosen to fit the specific workgroup. Options might include:

- Health Insurance
- Dental and Vision plans
- Life Insurance and Accidental Death and Dismemberment insurance
- Holidays, vacation days or other paid time off
- 401(k) Retirement Plan
- Paid physicals, drug screens and alcohol screens
- Paid attendance at Company Sponsored Safety Meetings and Training Events
- Direct Deposit
- Employee Assistance Program
- Opportunities for additional work through commercial charter.

### ***Buses – Cost to lease; What lease may cover (fuel, maintenance, etc)***

Our contracts are typically full service and include the provision of the buses, drivers, maintenance, and everything else related to those. We do provide many of the services related to student transportation individually, including lease-maintenance agreements. You have a significant amount of flexibility in choosing which portions of the service you wish us to provide. Leasing with maintenance is one of the options; however, leasing without our providing maintenance is not an option.

With specific information regarding the equipment required, mileage, availability of facilities, etc., we could provide a proposed cost structure for a lease-maintenance agreement. However, the most cost-efficient option will always be the full service solution.

***What buses may be used for by both the district and the contract company outside of delivery of students to and from school. May the company contract their buses out to other groups when not in use by the district?***

Typically, when we own the buses, we operate commercial charter for community groups. The benefits are threefold: A service to the community; drivers have an additional source of income; the additional revenue for First Student helps cover overhead at our location which may reduce cost for the school district.

If the school district owns the buses, the district name is on the side, or, if we are located on school district property, we don't use the buses for other purposes without prior permission from the school district.

If the school district or State own the buses they may use them for whatever they see fit outside of normal route operation. Or they may contract with us for additional services.

***Maintenance – May maintenance be contracted to include buses owned by district or state?***

Yes. Our company provides maintenance services for customer-owned fleets, either as an exclusive contract or as part of the regular school route service. We currently maintain more than 40,000 customer-owned vehicles. Maintenance services are managed with a computerized preventive maintenance system designed to meet or exceed State standards. Our technicians receive extensive training and we pride ourselves on the number of ASE certifications held in our shops.

Please see the attached RFI response for detailed information on our Maintenance Systems.

***Safety – Accident reports; Pupil incidents on bus (are there aides?)***

Our drivers and aides receive extensive training in all areas related to driving and the management of passengers on the bus. Employees receive both pre-service and monthly in-service training as well as annual refresher training in August.

Any accidents or incidents are reported to the customer on forms and in the time frame agreed to in advance. All collisions are reviewed by a Collision Review Board and management makes a decision on required retraining or disciplinary action. First Student's corporate Safety Team monitors the Accident Frequency Ratio of every location and compliance with company, federal and state requirements. As a result of our proactive safety activities our safety record is exemplary – in fact, First Student was recently rated twice as safe as the industry average.

Bus aides are provided by First Student at the direction of the school district, generally for special needs transportation. In some instances an aide is requested on a mainstream route, or additional one-on-one aides are required. We are happy to provide those when requested by the district.

Please see the attached RFI response for detailed information on our safety and training programs.

***Efficiency – Are students delivered on time?***

First Student is the leading user of technology on school buses, with more than 60,000 installations of GPS tracking. We are the only vendor with an in-house electronic routing office which provides routing services and efficiency studies for our customers. We have successfully reduced routes for dozens of customers through route optimization.

GPS tracking on 100% of our fleet makes tracking on-time performance simple. And we give our customers access to the GPS system to monitor our performance. Our operations team will work with the school district to setup efficient routes and expectations for on time delivery and provide you with a monthly report of our performance.

Please see the attached RFI response for detailed information about technology on school buses.

***Insurance, bus registration, taxes and any other pertinent information.***

We will provide Automotive and General Liability Insurance for any buses operated by First Student's employees – regardless of the ownership of the bus. In addition we provide Workers' Compensation, Garage Liability and other commercial insurance in limits agreed to with the customer. The School District and/or the State would be listed as additional insured on our policy for all operations related to the services contemplated. Contracts generally provide Hold Harmless language which further protects the customer in the event of legal action. Private contractors do not have Sovereign Immunity, as does the State of South Carolina and the School Districts. Therefore it is important that the Insurance limits are significant enough. We recommend \$25 Million as a reasonable limit.

Bus registration responsibility and expense typically follow the ownership of the bus; therefore, if we own the buses we will have responsibility for the registrations. Contractors are not exempt from most taxes associated with the operation of the buses or the business. We plan for and will pay the associated taxes.

***Can contractors reduce the age of the fleet in South Carolina within current cost per bus per day being spent by SC today?***

That is the question of the day – the quick answer is most likely yes for some districts and maybe not for others. Clearly the State is overspending on the maintenance of the fleet. We typically find the excess cost of maintaining older equipment begins to exceed the cost of replacement somewhere between year 12 and 15. Eliminating overspend on maintaining older equipment will significantly benefit the system – it is not known to what extent that will offset the cost of new or newer equipment. In order to answer your question we would need clear data on what is being spent today toward a district's current bus operation. That expense could be matched against the resulting Cost Study (as discussed above) for the same district(s) to provide a clear answer.

In any case, to avoid a sudden increase in cost due to requiring a significant amount of new buses, we strongly recommend the State relax the bus age requirements for a period of time which would allow a reasonable transition to newer equipment. This action would allow contractors to bring in a mixture of new buses and current equipment from other states. A well planned transition could achieve the desired maximum and average fleet ages over a reasonable time without causing a spike in cost.

***Is insurance included within a contract with the contractor?***

Yes. We always insure the fleets that we operate.

***What type of insurance does the contractor carry and how much?***

We carry General, Automotive and Garage Liability, along with any associated Excess Liability or Umbrellas, as well as Workers' Compensation Insurance. Our insurance is primary for the operation of the buses and the School District and/or State would be listed as an additional insured. We recommend \$25 Million as minimum coverage for this type of contract.

***Is maintenance included within a contract with the contractor?***

Maintenance is typically included, although in a specific circumstance that can be an option. We prefer to provide the full service.

***How is discipline handled on the bus by contractors?***

Our drivers and aides are trained in Passenger Management and we follow the school district's policies regarding disciplinary action. The District is always the ultimate authority in regards to student discipline and the driver may not touch a student or discharge a student from the bus unless at their designated stop or school, except in the case of clear and present danger.

***In what instance are aides assigned to a bus?***

Bus aides are provided by First Student at the direction of the school district, generally for special needs transportation. Bus aides receive specialized training in handling special needs students and managing wheelchairs on the buses. Aides go through the same strict background checks and evaluations as the drivers and any other personnel who come into contact with students.

There may be several other questions related to First Student or a contractor-operated fleet. I invite you to read through the sections of the enclosed RFI response which has much more detailed and comprehensive information about Safety, Driver Recruitment, Training, Fleet Maintenance and more.

Thank you for the opportunity to participate in this process. We have confidence that a vendor partnership with First Student will help achieve the desired result and bring long term benefits to the students and parents of South Carolina.

Sincerely,

Paul Sheppard  
Director of Business Development