



Safe, from Home to School

**The need for student transportation
reform in Minnesota**

**Prepared by the Service Employees International Union,
Local 284**

About the Author

The Service Employees International Union (SEIU) is the fastest-growing union in North America, with 1.9 million members in the United States, Canada, and Puerto Rico.

Focused on uniting workers in four sectors—hospital systems, long term care, property services, and public services—SEIU is the largest health care union, the largest property services union, and the second-largest public employees union.

SEIU members are winning better wages, health care, and more secure jobs for our communities, while uniting their strength with their counterparts around the world to help ensure that workers, not just corporations and CEOs, benefit from today's global economy.

In Minnesota, SEIU unites over 28,000 workers. SEIU Local 284 is Minnesota's largest union of school bus drivers, mechanics and aides.

For more information, contact:

Service Employees International Union, Local 284
450 Southview Blvd
South Saint Paul, MN 55075
(651) 256-9100

Or visit: www.seiu284.org

How this report was created

In preparing this report, SEIU members and staff engaged in a six-month community outreach process. This process included an extensive survey that was completed by hundreds of parents, school bus workers (both union and non-union), school officials and other community members. SEIU also held meetings on student transportation attended by parents and bus workers from districts across Minnesota. SEIU members and allies reviewed publicly available data from the State of Minnesota, school districts and media reports.

Data on student transportation costs, accident rates and late or missed routes were assembled from publicly available sources and analyzed by Owen Thompson a master's degree candidate at the University of Minnesota's Humphrey Institute of Public Affairs.

Executive Summary:

The Need for Student Transportation

Reform in Minnesota

Each day, thousands of Minnesota families place their trust in our state's student transportation system. Most of us take this service for granted. Riding a school bus remains the safest way for children to get to and from school. However, a growing number of parents, school officials, community members and school bus workers are concerned about trends in our state's school bus industry. Why?

Many school districts that hoped to find increased savings and flexibility through the privatization of school bus services are instead finding themselves with few options, little or no real competition among contractors and rapidly escalating service costs. This report confirms previous studies showing that Minnesota school districts pay an average of 10 percent more per student to outsource student transportation. The annual per-student savings of operating transportation systems fully in-house was \$45 (9.5%) per student for districts with less than 4000 students and \$33 (11.22%) per student for districts with more than 4000 students. The report also cites data collected by the Minneapolis Public Schools that indicate those higher prices come with higher rates of driver turnover, less experienced drivers, more accidents and a less reliable service.

What causes high turnover and an inexperienced workforce? Of school bus drivers surveyed for this report who plan to quit (for reasons other than retirement) within two years, 89 percent are being driven out by low wages and benefits, including 47 percent because of insufficient hours or the lack of summer work and 26 percent because they lack access to health care. Of those without private health insurance, 17 percent said they are uninsured and the other 83 percent said they receive health insurance through Minnesota Care or another government program.

Parents and school bus workers want safe school bus service, provided by a well-trained, stable workforce. Over 79 percent of parents surveyed said it is important that their child have a regular driver who they are familiar with. Unfortunately, 17 percent said their child had already had three or more school bus drivers this year. One parent from Cambridge, Minnesota wrote: "I think it's important that the kids know their bus driver and know who to trust in an emergency. I think they build a relationship with the bus driver just like a teacher or other school professionals. If they have a different driver everyday they may not feel comfortable going to them with a problem like bullying or [a] safety issue." Parents and bus workers are concerned: over 97 percent want private companies to report on the turnover, training, and experience level of their workforce when applying for public contracts.

At the end of this report, we offer a series of common sense reforms designed to place school districts and other public officials in a better position to understand and address these problems in our state's school bus industry.

School bus privatization: The illusion of savings

Many Minnesota school districts have decided to use private contractors to meet some or all of their student transportation needs. Unfortunately, many of these districts have not benefited from turning this public service over to the free market. In fact, our research revealed that privatization actually *increases* the per student cost of student transportation in many districts. These increased costs to Minnesota's school districts total in the millions of dollars annually.

Using data provided by the Minnesota Department of Education for the 2005-6 school year, we conducted an analysis of student transportation costs and their determinants. Data for all 375 Minnesota school districts that provided transportation services in school year 2005-6 were utilized. Our primary question was whether outsourcing student transportation services to private contractors effected costs, and if so in which direction and to what extent.

We began by making basic transportation cost comparisons between school districts providing their transportation services in-house, those using exclusively private contractors, and those using some combination of in-house and private contractors. This comparison was made for districts of various sizes and geographic locations, and the results are summarized in Tables 1 and 2 below.¹

Table 1
Non-Metro District's Average Per Student Transport Costs

	Less than 2% in-house		2% thru 98%		More than 98%	
	Count	Mean	Count	Mean	Count	Mean
0-1000 students	45	\$487.83	6	\$523.30	52	\$584.05
1000-4000	41	\$560.83	18	\$489.19	40	\$460.04
4000-8000	49	\$355.21	29	\$387.79	17	\$357.82
8000 +	13	\$271.77	8	\$264.40	2	\$224.33

Table 2
Metro District's Average Per-Student Transportation Costs

	Less than 2% in-house		2%-98%		More than 98%	
	Count	Mean	Count	Mean	Count	Mean
0-1000 students	4	\$632.75	1	\$427.38	7	\$518.15
1000-4000	7	\$409.43	2	\$609.83	7	\$412.62
4000-8000	10	\$405.16	2	\$398.26	8	\$387.29
8000+	2	\$277.45	3	\$405.70	2	\$231.82

¹ The Metro area is defined here as all school districts that are completely or in partly in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Sherburne, Washington and Wright.

These tables make it clear that transportation costs are either about equal or substantially lower for districts that provide transportation services in-house. Among the 8 types of districts looked at above the only exception to this trend were those districts that were outside of the metro area and had less than 1000 students. These districts alone realized significant cost savings with private contractors compared to their in-house counterparts.

A further question is to what extent varying the portion of transportation provided in-house affects per student transportation costs. To address this question, five multivariate regressions were conducted. For a detailed explanation of the methodology and results of these regressions, see the appendix that follows this report.

All five regressions indicated that, holding all other factors constant, reducing the degree to which transportation services were subcontracted also reduced per-pupil transportation costs. For all districts in the state combined, increasing the percentage of miles provided in-house by 10% decreased costs by an average of \$1.95 per student. Going from all contractor to all in-house on average decreased annual per-student costs by \$19.50, or about 4.3%, holding all other factors constant. The annual per-student savings of operating transportation systems fully in-house predicted by the other regressions were \$45 (9.5%) per student for districts with less than 4000 students, \$33 (11.22%) per student for districts with more than 4000 students, \$39 (9.03%) per student for Metro area districts, and \$17 (3.7%) per student for non-metro area districts. The data unequivocally indicate that sub-contracting transportation services significantly increased transportation costs in Minnesota for school year 2005-6. While this was the case for all types of districts, the increase in costs was particularly large for larger districts and for districts in the metro area.

The results outlined above are counterintuitive. The very premise of contracting is that greater efficiency and lower costs can be achieved by harnessing the competitive forces of private markets. Yet empirical evidence shows that the effect of private contractors on costs has been to increase them for districts across Minnesota.

The high cost of no competition

Minnesota state laws require school districts to go through a formalized public bidding process before awarding major school services, like student transportation, to private companies. Unfortunately, the mere existence of a process for competition does not ensure that school districts experience much in the way of actual competition in the bidding process. In fact, many school districts receive only one bid (from their current provider) when they go through this process. Unfortunately, no data is centrally collected to track the competitiveness of bidding statewide.

The absence of multiple, competitive bidders often results in contracts being awarded not to the lowest bidder, but to the *only* bidder. Even in larger districts that are served by multiple private bus companies, the presence of more than one company is no guarantee of competition. In 2006, the St. Paul Public Schools received bids only from the four contractors already serving the district. The bidders only bid for fractions of the district's routes. This resulted in routes being awarded to contractors that were, in fact, the only bidder. For some of these routes, costs went up as much as 25 percent over the previous school year's costs.

In this environment, it is not surprising that districts can experience cost increases beyond what could be justified by increased labor and fuel costs. If a small number of large firms account for a significant portion of student transportation in a given market, then characteristics such as high barriers to entry, pricing collusion (explicit and tacit) and price retaliation are more likely to be present. Economic theory commonly refers to such markets as "oligopolies," and the characteristics associated with them tend to decrease economic efficiency and exert upward pressure on prices.²

New competitors find barriers to entry due to the difficulty in locating land for school bus yards. School districts in urban and suburban districts often have little land available within their attendance boundaries that is suitable for school bus-related uses due to the fast pace of Metro development.

This is certainly true in the urban core of the metro area. According to one Minneapolis city planner, the city is struggling to preserve land zoned for industrial use within the city limits. The growth of condominium development has significantly reduced the amount of land appropriate for school bus use within the city limits (land zoned for industrial uses). At a Minneapolis School Board discussion meeting on February 21, 2006 district Transportation Director Pam Blackamoore told board members that the district wanted to expand its in-house fleet to take a greater percentage of routes back from private contractors but was unable to do so because the current district bus yard could not accommodate more school buses.

The problem extends to suburban school districts as well. Even when land is available, it may be difficult or unpopular for local governments to permit the noise and diesel fumes

² See Scherer, FM and Ross, D. *Industrial Market Structures and Economic Performance*. Boston: Houghton Mifflin Company.

associated with a bus yard. In 2006, North St. Paul-Maplewood-Oakdale school officials wanted to acquire land to expand their district-owned fleet. The land was being offered to the district by MnDOT at no charge. After public opposition due to environmental concerns, the Maplewood City Council refused to permit the new proposed use of the land. That decision “forces [the district] to contract for some bus service instead of more efficiently running it all on its own,” according to district Business Manager Dennis Sullivan.³

The high capital costs associated with acquiring land, in addition to zoning regulations and the reluctance of many communities to allow a bus garage to be built in their neighborhood can make bidding on a major contract unrealistic to all but a select few contractors.

One solution being pursued by some school districts is acquiring their own bus yard and allowing multiple contractors to operate from it. As John Thomas, who worked for a major student transportation contractor in the 1990s and now serves as Transportation Coordinator for the Chaska Schools explains, “Does owning your own bus garage encourage competitive bidding? Absolutely. It is one of the largest hurdles a new contractor has to overcome when winning a bid. Taking that out of the mix levels the playing field.”

The importance of eliminating bus yards as a barrier to entry in Minnesota’s student transportation market was underlined by a recent settlement between the state and First Student. When Minnesota’s two largest school bus contractors, First Student and Laidlaw, announced a \$3 billion international merger in 2007, Minnesota Attorney General Lori Swanson filed a Clayton Act anti-trust suit against the companies. The settlement of the lawsuit addressed the anti-competitive effect of the merger and the lack of land available for bus yards by requiring First Student to give school districts it serves the opportunity to assume the company’s leases on its school bus yards at no additional cost.⁴

Consolidation as a trend among Minnesota’s school bus companies is not limited to First Student and Laidlaw. Among smaller companies serving suburban and rural districts, company owners may also be part owners of contractors serving neighboring districts. Vision Transportation serves two school districts on the edge of the metro area: Elk River and Big Lake. Vision Transportation is owned by Gordon Hoglund (owner of Hoglund Transportation, serving the Monticello school district), Ken Spanier (owner of Spanier transportation, serving the St. Cloud school district) and Lyle Hicks (owner of Hicks Transportation of Litchfield).⁵ These inter-relationships may be more common than most school districts are aware. Because most small contractors serving rural districts are

³ “Maplewood isn’t thrilled about bus depot plan” *StarTribune*, 9/5/2006

⁴ See *Commonwealth of Massachusetts, et al. v. FirstGroup plc and Laidlaw International*, 1:07-cv-11816-GAO, consent decree entered on 9/27/07.

⁵ Vision’s ownership structure was only revealed in sworn testimony before the National Labor Relations Board, Region 18 on May 31, 2007 by Vision Transportation General Manager Mark Ostwald.

closely-held private corporations, there is no easy way to identify which company owners share ownership interests in other, neighboring companies. The lack of uniform reporting by school districts on transportation bidding combined with the lack of transparency about company ownership makes it impossible to fully assess how these relationships affect the costs districts pay for school bus services.

The combination of little competitive bidding, industry consolidation and the lack of district control over land suitable for bus yards are all factors that appear to contribute to the high cost of school bus privatization in Minnesota.

Workforce stability and safety

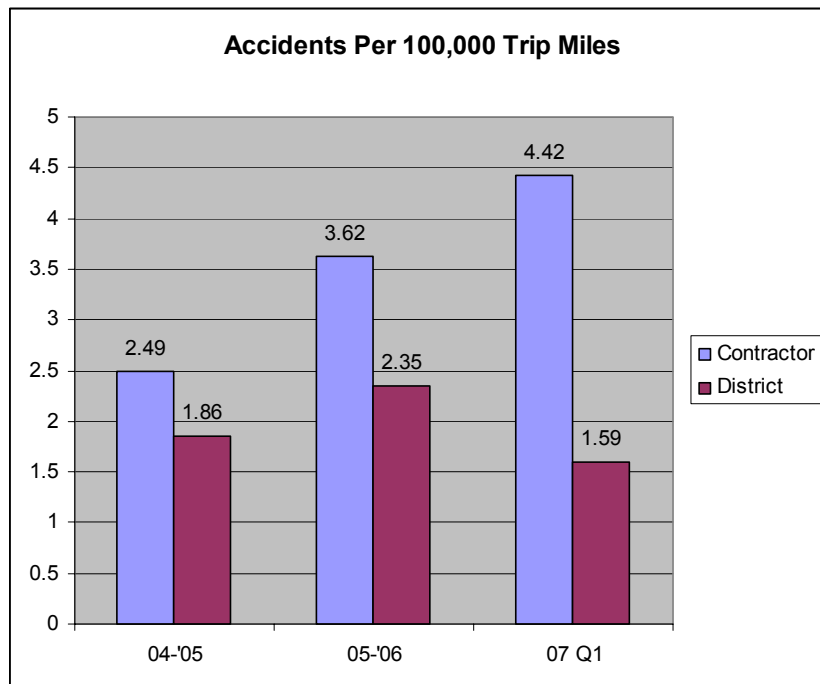
Cost is not the only factor that school districts should consider when choosing how to provide student transportation services. Safety, and to a lesser degree, reliability should also play an important role in these choices. Unfortunately, when it comes to assessing the safety and service record of contractors, school districts are often flying blind. The state does not collect information about driver turnover rates or experience levels nor does it track the experience levels of drivers involved in accidents. Few districts ask for this information in their bidding process. What little information is available to the public paints an alarming picture.

At the request of SEIU, school board members for the Minneapolis Public Schools directed district staff to collect some basic safety and quality of service information about the district's own in-house bus operations and from contractors serving the district. The information was collected and reported for the 2004-05 and 2005-06 school years as well as for the first quarter of the 2006-07 school year. This data offers the clearest picture available in Minnesota about the connection between the experience level and continuity of a contractor's workforce and the safety and quality of the service they provide.

The data collected by Minneapolis about experience levels among drivers revealed that bus drivers directly employed by the Minneapolis Public Schools (operating the district's in-house fleet) had an average of 10.5 years of experience. For bus drivers employed by contractors serving the district, the average amount of experience was only 3.7 years.

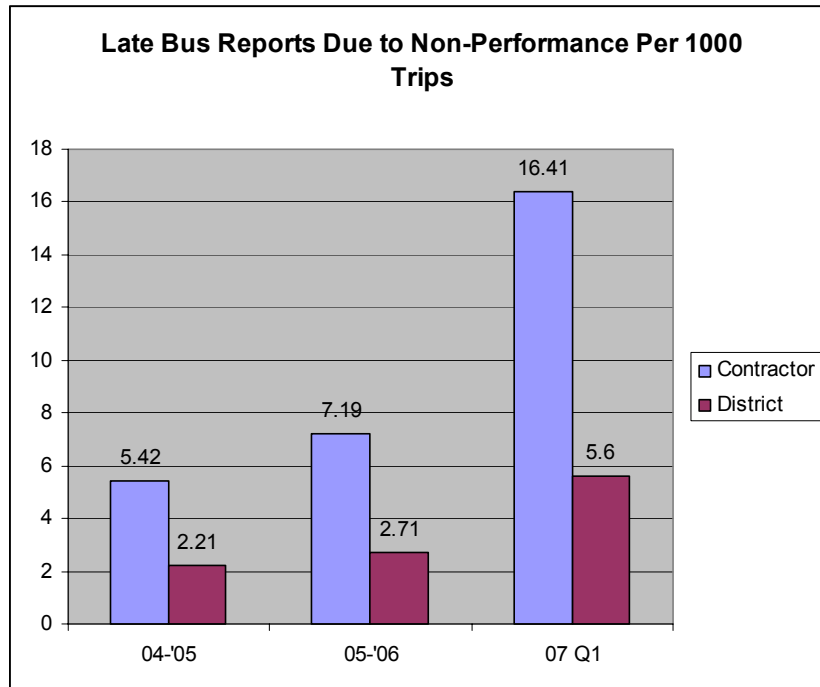
The data on safety show that district drivers tend to have far fewer accidents than contract drivers, as shown in Figure 1 below.

Figure 1



In addition to having more accidents, privatized drivers in Minneapolis accrued far more late bus reports than their district counterparts, as shown in Figure 2 below.

Figure 2



If there is a connection between driver experience and the safety and reliability of school bus service, what accounts for the fact that some employers are able to retain drivers while others are not?

In our survey, we asked school bus drivers who indicated they might quit their job within the next two school years why they were going to leave. Among drivers listing a reason other than retirement, 47 percent listed the lack of hours or the lack of summer work as their primary reason for planning to quit. Unlike other seasonal employees in Minnesota, such as construction workers, school bus workers are specifically prohibited from being able to collect unemployment insurance during their off-season months. Another 26 percent of school bus drivers planning to quit gave as a reason the lack of access to health insurance or their inability to afford health care that was offered. Sixteen percent (16%) indicated that their wage rate was the reason they intended to quit. Taken together, these responses suggest that 89 percent of non-retirement turnover is motivated by low standards for wages (as measured by wage rates or by the number of hours available for drivers to work) and the lack of affordable health insurance benefits available to school bus drivers.

If driver turnover is caused, in large part, by driver dissatisfaction with wages and benefits and inexperienced driver workforces are more likely to have safety and service problems, school districts have a need to know contractor wage and benefit standards in order to assess the quality of service contractors can offer.

In addition to their negative impact on safety and reliability of service, low standards for school bus worker pay and benefits can also drive up costs to the public. The cost of recruiting and training school bus drivers to replace those lost through turnover is likely a significant cost to private providers. No data on this is collected by the state, but there is little doubt that these costs are passed on to school districts. The overwhelming majority of non-union school bus workers who responded to our survey indicated that they did not receive health insurance through their job. Of those who lack private health insurance, 17 percent indicated they were uninsured but the remaining 83 percent indicated that they received health insurance through a government program. Of these, 20 percent were on Minnesota Care or Medical Assistance. The state does not currently collect or release the names of companies that employ people who are enrolled in Minnesota Care.

For many drivers, it is not possible to make ends meet on their school bus driver's salary. Twenty-six percent (26%) of drivers responding to our survey indicated that they had two or more jobs. Of these drivers, 20 percent work either a second shift or night shift job after the end of their school bus driving day. To the extent that this contributes to driver fatigue, it is potentially a serious safety problem.

Another safety issue emerged from our survey. State law requires that school buses undergo a mandatory "pre-trip" safety inspection prior to being operated each day. This inspection is typically done by drivers. In our survey, 36 percent of drivers indicated that they were paid for less than 15 minutes for the time prior to their route necessary for conducting their pre-trip safety inspection. Twelve percent (12%) said they were not paid at all for this time.

These preliminary findings indicate that, for the higher price school districts are paying for privatized student transportation, they are receiving lower safety levels and poorer quality service as a result of high driver turnover in the private, non-union sector of the industry. Survey responses from drivers also suggest that turnover results in other, hidden costs borne by our school districts and state government.

Community concerns about school bus service

Until a story about a school bus accident or a child left behind on a bus appears in the news, student transportation is not a subject most people think about. However, for parents whose children ride the bus, it can be a vital service and, at times, a source of serious concern.

In our survey, 79 percent of parents said it was “Very Important” for their children to have a regular bus driver who they were familiar with. Unfortunately, 17 percent said that their child had already had three or more different drivers this school year. One parent from Cambridge, Minnesota wrote: “I think it's important that the kids know their bus driver and know who to trust in an emergency. I think they build a relationship with the bus driver just like a teacher or other school professionals. If they have a different driver everyday they may not feel comfortable going to them with a problem like bullying or [a] safety issue.” A union driver employed by the Robbinsdale school district wrote: “I have been driving the same routes now long enough that I am seeing children of the kids who were riding my bus when I started out in this job. Knowing the kids by name makes it much less likely that I'll fail to notice if a child doesn't get off the bus at the end of the day or if one still hasn't crossed in front of my bus as I'm getting ready to drive off.”

Forty-eight percent (48%) of parents indicated that they have had to report a complaint about their child's bus service. Forty-one percent (41%) of parents who attempted to make a complaint were either directed to somebody else, told nothing could be done or received no response at all.

School bus drivers who appeal to their employers for higher wages and better benefits are frequently told: “You knew this was a part time job when you started. You shouldn't expect more.” Parents responding to our survey, however, do expect more than that from their children's bus driver. Over 95 percent of parents surveyed believe that school bus drivers should be professionals.

Parents also have higher expectations about how school districts handle the process of contracting for school bus services. Over 84 percent of parents surveyed believe that school districts should be required to project future costs when considering whether or not to contract out their bus services. Eighty-one percent (81%) believe that private companies should be required to disclose their net profit on contracts with public school districts. Finally, over 97 percent of parents surveyed believe that private school bus companies should be required to disclose driver experience levels, training standards and driver turnover rates before being awarded contracts with public school districts.

Recommendations for reform

The data and opinions collected in this report raise serious questions about our state's student transportation system. Many of these issues are complex and require more information to enable policy makers at the state and local level to make decisions in the best interest of fiscal responsibility and student safety.

SEIU recommends several specific changes that the state legislature should enact during its 2008 session:

1. Require that contractors disclose to school districts:
 - a. The length of continuous employment of current employees by job classification (driver experience level)
 - b. The contractor's annual rate of employee turnover by job classification (driver turnover rate)
 - c. The minimum number of hours of accompanied behind-the-wheel training and the minimum hours and topics of other training drivers at a contractor are required to complete before transporting students
 - d. The minimum length of time drivers must have held a valid driver's license and the minimum amount of time drivers must have held a valid school bus endorsement before transporting students
 - e. An explanation of the contractor's driver and aide recruitment and retention plan that includes an explanation of wages, available health insurance benefits and the employee premiums for such plans as well as policies on compensated absences such as paid vacations, holidays and sick leave.
 - f. Annual disclosure by contractors of the number of accidents and traffic violations, including a brief description of each incident listing the injuries sustained, damage to property, whether the accident was determined to be preventable or not and the experience level of the driver involved
 - g. Annual disclosure by contractors of any complaints issued by federal, state or local law enforcement for violations related to safety, health or labor relations
2. Allow school districts to award transportation contracts to a bidder other than the lowest bidder if it is in the interest of student safety or cost-effectiveness to do so.
3. Require that employers pay school bus drivers for their actual time worked or, at a minimum, 15 additional minutes before the start time of their route to ensure that an adequate pre-trip safety inspection is conducted.
4. Protection from discipline or loss of pay for drivers who report a safety-related problem with their bus and refuse to operate the bus until it is repaired or replaced with another bus.

Appendix on data analysis methods

Using data provided by the Minnesota Department of Education for the 2005-6 school year, we conducted an analysis of student transportation costs and their determinants. Data for all 375 Minnesota school districts that provided transportation services in school year 2005-6 were utilized. Our primary question was whether outsourcing student transportation services to private contractors effected costs, and if so in which direction and to what extent.

A further question is to what extent varying the portion of transportation provided in-house effects per student transportation costs. To address this question, five multivariate OLS regressions were conducted using the SPSS software package, one for the entire state and one each for sub-groups of school districts with less than 4000 students, school districts with more than 4000 students, school districts located within the metro area and school districts located outside of the metro area.

Because both initial findings and common sense indicated that the size of the school district and whether it was located within the Metro area had large effects on costs, separate regression were conducted for districts with more than 4000 students, districts with less than 4000 students, districts within the Metro area, and districts outside of the Metro area. The model took into account three variables in addition to the student count and geographic location of the district: the area of the district in square miles, miles traveled per student, and finally the percentage of total miles that were provided in-house. For all regressions, the independent variable was the annual transportation cost per student including the depreciation of buses.

There are some additional variables that almost certainly effect transportation costs but were not included due to a lack of data. Among them are fuel costs, wage levels for employees and the number of special education routes in the district. Even with the omission of these variables, the correlation coefficients (r-values) for the various models ranged from .485 to .835. This indicates that while the included variables do not explain all the variation in per-pupil transportation costs, the analysis has produced meaningful results. Furthermore, in 2005 Lazarus and McCullough⁶ conducted a similar study of Minnesota school districts for the 1999-2000 school year that did include the variables noted above and reached similar conclusion about the effect of contracting on transportation costs.

While there may be some endogeneity between the area, miles per student and percent in-house variables, it was judged that this potential endogeneity was sufficiently small to not significantly impact the results. Similarly, while area, student count, and miles per student were mildly multi co-linear, the degree of that multi co-linearity was small enough that it did not meaningfully impact the results.

⁶ Sheryl S. Lazarus and Gerard J. McCullough. *The Impact of Outsourcing on Efficiency in Rural and Nonrural School Districts: The Case of Pupil Transportation in Minnesota*. *The Journal of Regional Analysis and Policy*. (2005)35:1

Finally, let us turn to the results of the models. The coefficients of the regressors are given in Table 3 below.

Table 3
OLS Regression Results for Per-Student Annual Transportation Costs for MN School Districts in 2005-6

	All Districts	Metro Sample	Non-Metro Sample	Under 4000 Sample	Over 4000 Sample
Constant	403.3	191.28	412.66	478.37	182.43
Percent In-House	-1.95	-3.9	-1.73	-4.5	-3.3
Area	.176	0.15	0.185	0.215	0.056
Miles Per Student	.237	1.23	0.186	0.152	1.2
Metro	-9.20	NA	NA	-8.77	4.54
Student Count	-.18	-0.002	0.019	-0.079	-0.001
Adjusted R-Square	.226	.543	.224	.236	.651
N	375	55	320	337	38
Average Cost Per Student	453.96	431.66	457.80	472.04	293.63

Notes:

-Since variation in size matters within the greater than and less than 4000 sub-samples, the student count variable is not omitted.

-Since the data set includes all districts (a census), tests of significance are not applicable.

The most noteworthy aspect of Table 3 is that all of the coefficients for the Percent In-House variable are negative. An interpretation of these coefficients is presented in the report's main body. Additionally, there are a number of other very reasonable relationships represented in the coefficients that do not demand in-depth analysis. We see that increasing the area and miles traveled per student tend to increase costs, that within the metro area higher student counts tend to lower per-student costs, and that being in the metro area has only a small and ambiguous effect on per-student transportation costs.