

**CITY OF PITTSFIELD, MASSACHUSETTS  
ANALYSIS OF SCHOOL BUS OPERATIONS**

**PROJECTED FOR A FIVE YEAR PERIOD  
FROM JULY 1, 2005 THROUGH JUNE 30, 2010**

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To the Honorable Mayor  
City of Pittsfield  
Pittsfield, Massachusetts

Per your request we have performed an analysis to determine the cost to the City of Pittsfield to operate its own bus operations.

Our analysis consisted of estimating the cost of bus operations that the City would incur for a period of five years, beginning from July 1, 2005 through June 30, 2010. Our calculations are based upon assumptions and variables as indicated further in this report.

The report consists of two sections. The first section indicates the total costs broken down into expense categories in two columns, the first column indicating the total cost if the City were to operate its own bus operations and the second column indicating the additional costs that would be added to any bus contract awarded. The second section summarizing the assumptions and figures used for the calculation.

Very truly yours,



Thomas J. Scanlon,  
Certified Public Accountant

**City of Pittsfield Public Schools  
Cost of Bus Operations  
For the Period July 1, 2005 through June 30, 2010**

	<u>Total Cost to Operate the City's own Bus Operations</u>		<u>Cost to be Added to Outside Bus Contracts</u>
<b>Salaries</b>	6,319,474.00		390,120.00
Base wages for 2006 budget of \$1,214,341 at 2% increase per year		Based on 1 1/2 Employees	
<b>Handicap</b>	301,000.00		
Based on a 3% increase per year			
<b>Gas</b>	1,050,000.00		
Based on 2.05 per gallon less taxes of .184 and .11 multiplied by 120,000 gallons per year			
<b>Bus Operatons</b>	956,939.00		
Based on 175,000 Buses with 3% increase per year			
<b>Utilities</b>	137,800.00		
Based on a 3% increase per year			
<b>Health Insurance</b>	3,267,784.00		189,862.00
Based on 34 family and 11 individual and 12% increase per year		Based on 2 Employees with the Family Plan	
<b>Medicare</b>	67,209.00		
Based on wages			
<b>Unemployment</b>	36,000.00		242,800.00
Based on wages		Based on 50% of workforce being laid off	
<b>Workers Compensation</b>	276,219.00		
Based on wages			
<b>Life Insurance</b>	16,500.00		826.00
		Based on 2 employees	
<b>Retirement</b>	1,509,381.00		981,097.00
Based on .0448% of assessment		Based on 65% of employees fully funded	
<b>Depreciation of Buses</b>	1,508,000.00		
Based on \$3,016,000 at 10% for 5 years			
<b>Interest on Bus Loan at 4%</b>	300,000.00		
Based on 2,500,000 at 4% for 5 years			
	<u>15,746,306.00</u>		<u>1,804,705.00</u>
Revenue from Bus Operations	<u>(880,000.00)</u>		<u>(240,000.00)</u>
	14,866,306.00		1,564,705.00
Principal Payment on Loan	1,000,000.00		-
	<u><u>15,866,306.00</u></u>		<u><u>1,564,705.00</u></u>

**City of Pittsfield, Massachusetts**

**Analysis of School Bus Operations**

**For the Period July 1, 2005 through June 30, 2010**

Our analysis is based on the following information we obtained from the School Department, City Departments and other outside sources.

The school bus operations consist of 79 full-time and part-time employees. Of these 45 individuals on the health insurance plan, including 34 family plans and 11 individual HMO Blue plans. 51 of the employees are fully vested in the City's retirement system.

Our analysis is based on the City purchasing 52 brand new busses and operating the busses for a period of five years. Our cost analysis is based upon fiscal year 2004 with a cost of living adjustment to arrive at a base budget for the fiscal year 2006.

***The following is our analysis of the cost to operate the bus system for the City of Pittsfield:***

**Salaries**

We used a base year of 2006 for a cost of \$1,214,341 and applied a 2% increase per year for a total of \$6,319,474. We verified the wages paid in fiscal year 2004 to the Management Information System and the City to verify the number that the School Department supplied.

**Handicap**

We used the information supplied by the School Department and added 3% each year for an approximate total of \$301,000. The handicap is for contract services and parent reimbursement for special transportation.

**Fuel**

We used a basis of \$2.05 per gallon at 120,000 gallons per year to run the school buses. The City does not pay the Federal tax of .184 cents and also receives an .11-cent per gallon discount. The approximate cost for fuel per year would be \$210,000 using \$2.05 per gallon for fuel for a total cost of \$1,050,000.

There is a fuel escalation clause in the bid proposal stating that the base price for fuel is based on the Port of New Haven Connecticut as of March 20, 2005. We verified the cost on March 21, 2005 at the Port of New Haven Connecticut through the Lower Pioneer Education Collaborative. For transportation and taxes the base price was approximately \$2.00 per gallon for regular fuel and \$2.10 per gallon for diesel. Not knowing how much regular fuel or diesel would be used, we used an average cost of \$2.05 per gallon less the appropriate discounts allowed to the City.

## **Bus Operations**

We arrived at the bus operations cost for fiscal year 2006 of \$175,000 per year with a 3% increase per year. The bus operations lease includes the garage lease, rubbish removal, other maintenance programs, vehicle insurance, and maintenance of the busses. We used an average of \$1,200 per year for each bus for maintenance cost to arrive at a cost of \$175,000 per year.

Insurance on vehicles has decreased substantially because of competitive bid factors and has lowered the cost to \$175,000 per year with a 3% increase each year.

## **Utilities**

Utilities were based on fiscal year 2004 actual expenses with a 3% increase per year.

## **Health Insurance**

Health insurance was based on a contract of 90% City share and 10% employee share for 34 family plans and 11 individual plans with a 12% increase per year. The cost of the premiums per year for the period would be \$3,276,784. If the City negotiated an 80%-20% split the additional savings would be approximately \$363,000 over this period.

## **Medicare**

Medicare is based on wages of employees hired after 1986.

## **Unemployment**

Unemployment costs are based on the City's method of apportioning unemployment compensation payments on an actual basis to arrive at \$36,000. If the City ends the bus service there would be a one-time expense of \$242,800 in additional costs. This is based on 50% of the employees being laid off and receiving compensation based on a 26-week period.

## **Workmen's Compensation**

Workmen's compensation is based on actual wages paid.

## **Life Insurance**

Life insurance is based on the employees who belong to the plan and the City's share.

## **Retirement**

The retirement assessment is based on overall wages paid in to the system for the City's employees divided by the total wages of the bus operations that equals .0448% of the assessment with a 5% increase each year for a total cost of \$1,509,381.

## **Purchase of Busses**

We used an outside source vendor named New England Transit Sales Inc. from Tyngsboro, MA to arrive at a cost for a 2006 model bus and value of the bus and the end of a five-year period. The approximate cost of a new bus is \$58,000 multiplied by 52 busses for a total of \$3,016,000. The busses will have an approximate ten-year life. When the busses are depreciated using straight-line depreciation over a ten-year period the depreciation allowed would be \$1,508,000 for five years. At the end of five years according to New England Transit Sales the market value of these busses would be \$1,500,000.

## **Interest on Loan**

In order to fund the \$3,000,000 to purchase the busses there would be a trade in value of \$500,000 for the existing busses and then \$2.5 million would need to be borrowed at 4% based on a refunding note each year. The total interest would be \$300,000 and the principal payments due on the loan would be \$500,000 per year for five years. We would use \$200,000 per year as net cost to the taxpayer as depreciation expense would be \$300,000 per year for a total of \$500,000 per year for the loan payment.

## **Revenue**

The City receives revenue from bus operations used to offset costs. The City sells tickets to riders who are not eligible to ride the bus that generates \$48,000 in revenue per year into the City's treasury. There is additional revenue from St. Joseph's school and other sources for a total of \$130,000 which would generate yearly income of approximately \$178,000.

On a business type operation net cost to operate the school busses would be \$14,866,306 and principal payment of busses of \$1 million over the same period at a cost to the taxpayer of \$15,866,306. At the end of a five-year period the 52 busses would be worth approximately \$1.5 million and the City would own the busses.

## ***The following is our analysis to operate a bus system using an outside vendor:***

If the City accepts an outside vendor for bus transportation the City will still have to pay some of the costs within our analysis. These costs are as follows and would be in addition to any cost proposal by outside bus vendors.

## **Salaries**

Salaries for 1 and ½ employees consisting of a Director of Bussing and a part-time employee over a five-year period using the salaries on the same method as above the total cost would be \$390,120.

## **Health Insurance**

Health Insurance estimated using 2 full-time employees on family plans would be \$189,862. The estimate is based on 2 full-time employees on family plans since it is unknown if the employees would be on the family or individual plan.

### **Life Insurance**

Life Insurance for two employees would be \$826.

### **Unemployment**

Unemployment based on 50% of the workforce being laid off would be a one-time cost of \$242,800.

### **Retirement**

The retirement cost would not be completely gone as 65% of the employees are fully vested therefore, there would be a cost of \$981,097 or 65% of the assessment.

### **Revenue**

The revenue generated from the riders who purchase tickets would be approximately \$240,000 so the net cost to the City would be \$1,564,705. This amount would need to be added to any outside vendor cost to obtain the true cost to the City.

The City would only have revenue of \$240,000 because the other outside revenue generated would be contracted with the outside bus company so only the sales from the tickets would come into the City's treasury.

### **Conclusion**

If the City decides to operate its own bus operations, the operations should be accounted for as a business-type activity. This would involve expensing depreciation and accounting for any revenues generated, that would indicate the true cost of the bus operations. The principal payment for the bonds to purchase the busses would not be part of the operations, but would be included as a cost to the taxpayers.

Additionally by purchasing the busses, the City would also own 52 buses at the end of the five year period.