

## Capital Punishment: Funding Fleet Replacement When There is No Money

Written by Tim Ammon

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Recent news stories about initial discussions on 2012-2013 budgets have demonstrated that obtaining funding for replacing school buses is increasingly difficult. These high dollar items are a prime target because with the stroke of a pen, or keyboard, several hundred thousand dollars in cuts can be made seemingly without impacting any programs. Establishing a sustainable and justifiable mechanism to fund replacement is more important now than it ever was.

The primary problem is that buses are usually purchased with current year cash. Growing up in New England, I can appreciate the parsimonious underpinning of this approach, but it is not all virtue. Using current year cash presents two major problems. First is the significant swings in annual funding requirements.

Asking for \$1 million this year and \$100,000 next year puts school boards in a very difficult position because of the second problem. Tax revenues, the primary funding source, do not accommodate variability well. In order to create a sustainable replacement strategy, transportation managers must develop a plan that replaces vehicles in a timely manner without causing wild swings in annual funding requirements.

Plan development begins by looking at both the timing of replacements and the financing mechanism used to acquire the buses. Managing the timing of replacement requires active attention to the utilization of the fleet. Shifting buses around to even out mileage and identifying units that should be replaced early versus those that can be held over (consistent with statutory or regulatory guidance on fleet age) are two crucial items to consider. Using these principles, it is possible to develop a long term projection of expenditure requirements.

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After determining how much money is needed, the next step is determining how to finance those purchases. Many states restrict the ability of school districts to use mechanisms such as capital reserve funds. Where this type of fund is possible, it can be a highly successful mechanism to managing variability in expenditures and funding. Another alternative is leasing through manufacturers or capital markets. Historically low interest rates make this a particularly attractive option for school districts with old fleets and a need to catch up on deferred replacements quickly.

Finding a way to match expenditures and revenues isn't just a job for the finance office. Establishing a plan for both replacement and financing may just be the get out of jail card you need to avoid the inevitable outcomes of capital punishment.

*[Tim Ammon](#) is a consultant with Management Partnership Services, Inc., in Rockville, Md. He has extensive experience in system implementation and use and evaluating school bus routes and schedules and has analyzed all aspects of transportation and fleet management operations. Ammon also assists in the specification and implementation of transportation software applications.*