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A Status Report**

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## INTRODUCTION

During the past three years, the Urban Mass Transportation Administration (UMTA) has undertaken a policy initiative which could radically alter the delivery of public transportation service in the United States. UMTA has discarded a twenty year policy which implicitly (and often explicitly) endorsed a public sector monopoly on the operation of public transit service in a region and has, instead, embraced a policy favoring competitive procurement of transit service from private and/or public organizations. This policy shift is in response to the decreasing cost effectiveness and increasing financial problems of the transit industry, problems which many observers believe to be inherent in a system of public monopoly service provision. UMTA's current policymakers share this belief, and are persuaded that major alterations in the public monopoly structure are necessary if the transit industry's severe fiscal problems are to be at least stabilized, and hopefully ameliorated. UMTA expects that its policy initiative will result in a substantial increase in the portion of transit service that is operated by private sector organization, and as such the policy is often referred to as "privatization." But whether this private sector policy initiative goes under the rubric of "privatization" or "competition" or some other term, in essence, it is a policy promoting contracting for transit service.

Transit service contracting is a radical concept for an industry which has been organized around public monopoly principles for the past fifteen to twenty years, and even longer in many large metropolitan areas. The transit service delivery system which exists in most large

cities has been predicated upon the concept that a single public organization should plan, operate, and administer public transit in that region. The mind-sets of local transit policy makers have been shaped by this practice; managerial skills and careers are geared to this system; and labor relations, work rules, and compensation practices in transit are those of a public monopoly. A shift to a system in which at least some transit service is obtained from private sector operators through a contractual mechanism thus poses a major challenge to the key transit actors at the local level.

UMTA is fully cognizant of the radical nature of its private sector policy initiative, and aims to spark a veritable revolution in the way transit services are delivered, with service contracting assuming a much more prominent role in the service delivery system. Until recently, however, little was known about the current scope, magnitude, and characteristics of transit service contracting. Such information is essential not only to guide policy development, but also to determine the base from which UMTA hopes to increase contracting and to understand how public agencies are currently using contracting and managing this practice.

This information is now available, in the form of over 800 responses by public transit sponsors to a nationwide survey of transit service contracting. This survey obtained basic information on the operating characteristics, costs, and contractual arrangements of contracted transit services. Although UMTA hopes to stimulate a level of transit contracting which will quickly make the information from this survey obsolete, a substantial increase in transit contracting is likely to take several years to effectuate. Moreover, such an increase is by no

means inevitable given the opposition of many important transit interests to UMTA's policy initiative.

Accordingly, as the public transit industry stands poised at a point at which it could undergo its greatest change in the past twenty years, it seems appropriate to give a status report on the current use and characteristics of transit service contracting. How is the concept which is at the core of these potentially far-reaching changes being currently implemented in practice?

#### SURVEY METHODOLOGY

To obtain data on the existing use of service contracting and pertinent characteristics of contracted service, a nationwide mail survey was conducted by the Institute of Transportation Studies at the University of California, Irvine in 1985. Using information obtained from state DOT's and a previously published UMTA transit directory, efforts were made to identify and contact every public transportation provider in each of the fifty states, with the exception of systems which are targeted exclusively at an elderly and handicapped, social service agency-oriented clientele. Judging by the comprehensiveness of the information provided by the states, there is a high probability that at least 95 percent of all transit services in the U.S. were included in the mail survey. A survey instrument was sent to each of the providers during the spring or summer of 1985. Additional mailings and telephone follow-up were used to maximize the response rate.

The combination of a one page survey form and extensive follow-up produced an excellent response rate, approximately 75 percent. Of 982 systems identified and contacted, responses were received from 732

systems. If an agency did not respond after repeated contacts, UMTA's Section 15 data, when available, were used for that agency. In a few cases, such as California and Minnesota, information provided by the state was of sufficient quality that it could be used when a system did not respond to the survey. In this fashion, information was obtained on an additional 132 systems. A total of 864 transit systems are included in the data set. The sample is thus highly representative.

The data collection instrument asked the public transportation sponsor to provide the following information: (1) which types of transit services (e.g., fixed-route, demand responsive) are provided, and whether they are operated by the public agency or a private contractor; (2) aggregate operating statistics for all of the agency's transit services; (3) operating statistics for each contracted service; (4) sources of funding; (5) vehicle ownership for contracted services; and (6) the nature of the contractor selection process (e.g., competitive bidding, negotiation) and the length of the contract. Respondents were asked to supply 1983-84 operating statistics whenever possible, although some supplied 1984-85 information. Approximately 825 systems supplied reasonably complete data.

#### EXTENT AND MAGNITUDE OF SERVICE CONTRACTING

Approximately 35 percent of all the public agencies included in this survey contract for at least a portion of their transit service. Table 1 indicates that there is not a large difference in the use of contracting by different types of public agencies, with 33 to 44 percent contracting for at least some service in each public agency category. However, as shown in Table 1, types of agencies differ significantly

in terms of contracting for "all" or "some" of their service. Municipalities which contract typically do so for all of their transit service, whereas most contracting by transit agencies is for only a portion of the total service delivered.

TABLE 1  
Amount of Contracting vs. Type of Sponsor

<u>Type of Sponsor</u>	<u>Amount of Contracting</u>			<u>N</u>
	<u>All</u>	<u>Some</u>	<u>None</u>	
Transit Agency	12.9%	20.4%	66.7%	255
City	30.5	5.4	64.1	410
County	20.7	12.6	66.7	111
Other	37.5	6.3	56.3	48
All Types	24.2	11.0	64.8	
N	199	91	534	824

System size has a strong and pervasive influence on patterns of service contracting. Although small public transportation systems, those with 50 or fewer vehicles, are less likely to contract for service than systems with more than 50 vehicles, most of the service contracting by the latter group is for only a portion of their service, whereas the bulk of contracting by small systems is for the entire transit service (Table 2). Among systems with 50 or fewer vehicles, 81 percent of contracting is for the entire system, whereas among systems with more than 50 vehicles, only 20 percent of the contracting is for an entire system. The very size of the smaller agencies means that contracting decisions are often of an "all or nothing" character--these systems are typically

TABLE 2  
Contracting vs. System Size

<u>System Size</u>	<u>Any Service Contracting</u>	<u>Contract All Service</u>	<u>Contract Some Service</u>
1-50 Vehicles	33.4%	27.1%	6.2%
51 or more Vehicles	46.5%	9.3%	37.2%
All Systems	35.4%	24.3%	11.0%

so small that it makes most sense to either operate the entire service in-house or to contract for all service. Thus it is frequently infeasible to contract for only a portion of the system.

Because of this pattern, there is much more contracting as a percentage of agency expenditures among small systems. As Table 3 illustrates, the percentage of average agency expenditures for contract operations sharply and systematically declines as system size increases.

TABLE 3  
Percent Operating Expenditures for Contract Service by System Size

<u>System Size</u>	<u>Average Agency Percentage Contract Expenditures for Size Category</u>	<u>N</u>
1-10 vehicles	31.6%	453
11-25 vehicles	25.3%	166
26-50 vehicles	18.2%	98
51-100 vehicles	11.2%	59
101-250 vehicles	9.5%	39
More than 250 vehicles	9.5%	41



(Table 3 does not report the percent of total contract expenditures to total operating costs for each category, but the average percentage contract expenditure in that size category.)

Table 4 provides a breakdown of contracted services by the type of service, as well as the ratio of private to public service provision for each category. It should be noted that the data are presented on the basis of service, not agency. Since many agencies provide more than one type of service, the total number of services is much larger than the number of agencies.

Demand responsive transit services are most likely to be contracted, both as a percentage of all contracted services and as a

TABLE 4  
Number of Transit Services Privately Contracted By Service Type

<u>Service</u>	<u>Type of Provider</u>			<u>Portion Privately Contracted<sup>1</sup></u>
	<u>Public</u>	<u>Private</u>	<u>Both</u>	
FRT (All Day)	450	119	18	23.3%
DRT-EH <sup>2</sup>	223	118	13	37.0
DRT-GP <sup>3</sup>	231	99	11	32.2
Commuter	42	16	1	28.8
Weekend/Evening	75	7	3	11.8
<u>Other</u>	<u>16</u>	<u>14</u>	<u>2</u>	<u>50.0</u>
All Services	1037	373	48	28.9%

<sup>1</sup> Portion privately contracted = "private" + "both" divided by row sum.

<sup>2</sup> EH designates elderly and handicapped service.

<sup>3</sup> GP designates general public service.

percentage of contract service for each service type. Contracts for demand responsive transit (DRT-EH and DRT-GP in Table 4) represent 58 percent of all service contracting. Moreover, one-third of all demand responsive transit services are contracted. Nonetheless, there is a surprisingly large amount of contracting for fixed-route service, with over 160 such services (including commuter service and weekend/evening service) contracted to private operators, representing 22 percent of these services. Overall, approximately 29 percent of all separate transit services provided by the agencies included in the sample are contracted to private operators.

Because contracted services tend to be relatively small scale, the amount of contracting measured in dollar and mileage terms is considerably smaller than the percentage of all services which are contracted. Service contracting represents 5.1 percent of total nationwide transit operating expenditures for bus service and 8.6 percent of total revenue vehicle miles of bus service produced. (This includes demand responsive service as well.) Although much smaller than the percentage of services contracted, these measures nonetheless indicate that service contracting is already a phenomenon of significant import. This is particularly the case for municipally provided transit services, as 27 percent of all operating expenditures for such systems represent privately contracted services.

Service contracting occurs in at least 41 states, but is most prevalent in a relatively small number of states. One-half of all the systems which contract for service are contained in California, Massachusetts, and Minnesota, even though these three states contain only 34 percent of the transit systems in the survey. Other states where a

substantial amount of contracting occurs include Connecticut, Illinois, Iowa, Michigan, North Carolina, Ohio, Pennsylvania, Texas and Wisconsin. Collectively, these twelve states account for 80 percent of all systems which engage in some form of service contracting, while they contain only 69 percent of all the systems included in the survey.

The survey identified several notable examples of large scale service contracting. At least seventeen public agencies contract for service involving 50 or more vehicles. The largest contracted service is in Honolulu, Hawaii, where a 480 bus fleet providing fixed-route transit service at an annual operating cost of \$55 million is contracted to private operators. The entire Phoenix transit system, with 350 buses, is also contracted to two private operators. Large contract operations which do not represent an entire transit system include a large segment of suburban service in Dallas (over 100 vehicles), the Houston and Dallas commuter bus programs (each with more than 60 vehicles), and the demand responsive services of Orange County Transit District (130 vehicles) and the San Bernardino County transit agency (over 50 vehicles) in California.

TABLE 5  
Contract Length vs. Type of Contracted Service

Length of Contract (years)	Type of Service		
	Fixed Route	DRT-GP	DRT-E+H
1	51.5%	66.2%	61.9%
2	6.8	10.8	14.4
3	24.3	12.5	17.5
4+	17.4	9.5	6.2
Average Length (months)	30.2	21.2	20.6

## PATTERNS OF SERVICE CONTRACTING

When public agencies do contract for service, they tend to award short term contracts, often only one year in length. Table 5 provides the percentage distribution of contract lengths for the three major types of contracted services. One-year contracts are most prevalent for all three service types, although 42 percent of the fixed-route operations had a contract of at least three years duration. In contrast, only 23 percent of the DRT operations had a contract of this length. In addition, the duration of the average fixed-route contract is nearly 50 percent greater than the average DRT contract.

Vehicle ownership is the most likely explanation of why fixed-route services tend to have longer contracts. Nearly 40 percent of all fixed-route systems require the contractor to provide the vehicles. The economic advantages of amortizing the relatively expensive buses used in such systems over a multi-year period is one major reason for contracts of three or more years in length. Many fixed-route contract operations, moreover, have been in existence for several years or more, so perhaps the sponsor also has sufficient confidence in the contractor's performance to implement a relatively long contract. In addition, some are franchised operations of long duration.

The survey results indicate that in about 53 percent of all cases, formal competitive bidding is used to select a contractor, with the remainder split between negotiated contracts and contract renewals (Table 6). It is assumed that contract renewals are not competitively bid unless explicitly stated by the agency; in this case, the selection process was categorized as competition. The results shown in Table 6

reveal that specialized DRT services and commuter services are most likely to be competitively bid.

It bears noting that long term contracts are the most likely to be competitively bid. Among the major types of contracted service (DRT and all-day fixed-route service), a competitive process is used to award 67 percent of all contracts of three or more years, and 75 percent of those for four or more years. In contrast, only 43 percent of all one-year contracts are awarded competitively. Many one-year contracts, however, are renewals of an existing contractor. This operator may have initially been selected by a competitive process. If renewals are disregarded, 69 percent of one-year contracts are awarded through competitive bidding.

TABLE 6  
Contractor Selection Process by Type of Service

Type of Service	Competitive Bid	Selection Process		N
		Negotiation	Renewal*	
FRT	51.0%	24.0%	25.0%	104
DRT-GP	45.6	20.5	33.8	68
DRT-EH	58.8	17.6	23.5	102
Commuter	71.4	21.4	7.1	14
Other	45.4	18.2	36.4	11
All	53.2%	20.7%	26.1%	299

\* Unable to ascertain whether contract renewal with existing provider was competitively bid or negotiated, although strong implication that contract was negotiated.

It appears likely, therefore, that competitive bidding is the norm for contract awards unless an agency has developed an ongoing relationship with a contractor which has proved mutually beneficial. In such cases, one-year renewals of the contract become a popular option (38 percent of all one-year contracts are renewals.)

Information obtained on vehicle ownership indicates that about 50 percent of all vehicles used in contracted services are owned by the private operators which provide the service (Table 7). Most vehicles used for fixed-route services are owned by sponsors, whereas contractors own the bulk of the vehicles used in DRT systems. Table 8 provides a further breakdown of vehicle ownership by system (as opposed to total vehicles) for each of the major service types. This reveals that

TABLE 7  
Vehicle Ownership for Contracted Services by Service Type

<u>Type of Service</u>	<u>Number of Vehicles Owned by:</u>		<u>Percent Owned by Sponsor</u>
	<u>Sponsor</u>	<u>Contractor</u>	
FRT	2482	502	83.2%
DRT-GP	352	777	31.2
DRT-EH	515	1746*	22.8
Commuter	7	204	3.3
Other	28	94	22.9
All	3384	3323	50.4%

\* In some cases, vehicles included in this category represent taxicabs used for a variety of services, not just service sponsored by public agency. This number thus overstates vehicles dedicated to transit service.

TABLE 8

## System Ownership of Vehicles by Service Type

<u>Service Type</u>	<u>Entity Which Owns Vehicles</u>		<u>Both</u>
	<u>Sponsor</u>	<u>Contractor</u>	
FRT	53.7%	39.0%	7.4%
DRT-GP	42.1	54.7	3.2
DRT-EH	34.2	60.0	5.8
Commuter	20.0	80.0	--

contractor ownership is the most prevalent for commuter services, whereas sponsors own the vehicles used by contractors in the majority of all-day fixed-route services. Sponsors own some or all of the vehicles in 40 to 45 percent of DRT systems.

These different ownership conventions presumably reflect the high cost of the large buses often used for fixed-route service in comparison with the relatively inexpensive vehicles used for DRT. A major reason that contractors for commuter service typically own the (expensive) vehicles used by the operation is that they can use the buses for other private services (e.g., charter) at other times of the day or week.

The survey was not specifically designed to obtain information on factors which influenced a public agency's decision to contract for transit service, but the available data do provide some limited insight into this issue. It has been previously suggested that public agencies which face budgetary constraints, or can use transit subsidies for other local government purposes, are most likely to contract for transit

service (Teal and Giuliano, 1986). The results of the survey are consistent with this hypothesis.

This is most easily seen by looking at small transit systems, those with 50 or fewer vehicles, where it is most likely that the entire system will be contracted if any service contracting occurs. Examining only those agencies which contracted for either "all" service or for "no" service (this included 94 percent of all systems with 50 or fewer vehicles), it was found that of the 113 agencies which had access to only state or local funds for transit subsidies, 49 percent contracted for all of their service. In contrast, among 292 similar agencies which had access to all three sources of subsidy (i.e., local, state, and federal) and thus presumably were better endowed financially than their counterparts, only 23 percent contracted for all service. This is compelling evidence that financial constraints are a key motivator of total system service contracting.

In addition, among larger agencies, over 90 percent of which have access to multiple sources of subsidy, 80 percent of all contracting is for only a portion of the transit system. This type of contracting is less likely to be in response to strong financial pressures, as the total subsidy savings from contracting are small and these agencies are likely to operate under much less severe financial pressures than their smaller counterparts who have limited access to subsidy.

#### OPERATING CHARACTERISTICS OF CONTRACT SERVICES

The public agencies in the sample were divided into three categories: (1) those which contract for essentially all of their transit service; (2) those which contract for only some of their service,



and for whom public agency operation is the primary mode of service delivery; and (3) those which contract for no services. Table 9 provides relevant statistics on the annual operating cost, revenue vehicle miles, and number of vehicles for transit services in each of these three categories. Both mean and median measures of central tendency are used. The mean values are strongly biased upwards, as reflected by the very large differences between mean and median values. The differences between the large mean and the small median values reflect the fact that while each of the contracting categories contains several large systems, resulting in high mean values, many contracted systems are quite small, leading to low median values. Neither measure is an accurate indicator

TABLE 9  
Operating Statistics by Level of Service Contracting

	<u>Amount of Service Contracting</u>			
	ALL	SOME		NONE
<u>Mean Values</u>		<u>Entire System</u>	<u>Contract Service</u>	
Op. Cost	\$1,221,710	\$20,447,490	\$895,877	\$5,962,559
Rev. Veh. Mi.	562,114	6,239,540	477,408	1,810,588
Vehicles	20.3	196.5	23.2	57.5
<u>Median Values</u>				
Op. Cost	\$229,340	\$4,430,000	\$154,800	\$315,650
Rev. Veh. Mi.	154,874	1,911,388	123,000	292,900
Vehicles	6.4	61.5	6.3	8.4

of the "representative" contracting situation, although the median is closer to being representative than is the mean.

As measured by revenue vehicle miles, the average totally contracted system is only 31 percent as large as the average system which contracts for no service (Table 9). Annual operating expenditures are only 19 percent as great. The median sized fully contracted system is about one-half as large as the median sized non-contracted system.

Contracted services which represent only a fraction of the entire service delivery system are even smaller in scale, averaging 80 percent of the operating cost of the fully contracted systems. These services, moreover, typically represent a very small portion of a transit system's total service package, with a mean value of 4.4 percent of operating expenditures and 7.6 percent of revenue vehicle miles. In addition, the agencies which engage in only partial service contracting are much larger than the other two types, with average annual operating costs of over \$20 million, and median operating expenditures of \$4.3 million.

Table 10 provides a further breakdown of the contracted services, illustrating that most partial service contracting is for DRT service--76 percent of all services contracted by the partial contracting agencies--whereas a substantial amount of total service contracting is for all-day fixed-route service and commuter service--43 percent of all services among totally contracted systems.

Table 10 also reveals that contracted fixed-route services are likely to be much larger in scale than other types of contracted services. All-day fixed-route services and commuter services have much larger average operating costs and revenue vehicle miles than do the DRT

TABLE 10  
Contracted Service Operating Cost by Type of Service

<u>Transit System is Totally Contracted</u>				
<u>Service Type</u>	<u>Mean</u>	<u>Median</u>	<u>% of all Systems</u>	<u>N</u>
FRT	\$1,790,552	427,621	41.2%	113
DRT - GP	209,567	126,511	29.9	82
DRT - E&H	283,239	11,500	26.6	73
Commuter	151,096	92,612	2.2	6
<u>Transit System Contracts for Some Service Only</u>				
<u>Service Type</u>	<u>Mean</u>	<u>Median</u>	<u>% of all Systems</u>	<u>N</u>
FRT	\$812,161	130,448	19.0%	20
DRT - GP	471,887	90,155	27.6	29
DRT - E&H	621,201	200,000	48.6	51
Commuter	4,423,415	1,123,000	4.8	5

services. Nonetheless, contracted fixed-route services tend to be considerably smaller than public agency provided fixed-route operations.

#### COST COMPARISONS

The results of the survey provide an opportunity to compare public agency and private contractor operating costs for comparable transit services. Comparisons are possible for both fixed-route and DRT services.

The survey obtained basic operating data on a total of 468 all-day fixed-route transit services. These include 384 publicly operated systems and 84 privately contracted services. These systems were

disaggregated based on the number of vehicles, and compared on the basis of cost per revenue vehicle mile and cost per revenue vehicle hour. The results are shown in Table 11. Note that costs are for public systems and private services including, typically, the public agency's cost of monitoring the privately contracted services. The survey provides no direct information on the size of the private contracting firm. Thus the size categories give comparisons of public transit operators with privately contracted fixed-route bus services, not private bus operations per se.

TABLE 11  
Public Agency vs. Private Contractor  
Operating Costs For Fixed Route Transit by Size of System

	<u>Cost/RVM</u>	<u>N</u>	<u>Cost/RVH</u>	<u>N</u>
<b>25 or Fewer Vehicles</b>				
Private Contractor	\$1.79	63	\$25.08	58
Public Agency	1.88	201	27.22	170
<b>26 to 50 Vehicles</b>				
Private Contractor	2.30	11	28.17	10
Public Agency	2.34	68	29.78	67
<b>51 to 250 Vehicles</b>				
Private Contractor	2.06	7	33.75	6
Public Agency	2.67	83	36.95	79
<b>251 to 500 Vehicles</b>				
Private Operator	2.81	3	38.05	2
Public Agency	3.45	11	45.13	9
<b>More than 500 Vehicles</b>				
Private Contractor	N/A	N/A	N/A	N/A
Public Agency	4.11	23	53.09	23

This comparison indicates that differences in unit operating costs between public and private operators are strongly related to size. Depending on whether cost per mile or cost per hour is used, there is a 2 to 8 percent difference in unit costs between public and private operators for systems of 50 or fewer vehicles. As the size of the service increases, however, public agency costs increase markedly, whereas private contractor costs increase less rapidly. Because few large privately contracted systems exist, the results for the largest such systems must be viewed cautiously. The sample sizes are too small to infer that large contracted systems are necessarily less expensive than large public agency operated systems, or that the cost differentials found here are necessarily indicative of those which would be obtained in actual contracting situations. Moreover, some of the largest privately operated systems are franchise operations, whose costs may be greater than competitively procured services. Thus, cost differences could be greater or smaller in competitive contracting situations.

The same phenomenon of small unit cost differences for public and private operators of small systems also holds for demand responsive service. There is only a slight difference between cost levels of public and private DRT operators in the sample, virtually all of which operate 50 or fewer vehicles, even when adjusting for vehicle ownership costs for many of the privately contracted DRT systems.

The results indicate that the greatest significant cost savings from contracting are likely to occur in cases where a large public agency contracts a portion of service to a private operator. The average cost per vehicle mile for public systems with more than 500 vehicles is \$4.11. If those privately contracted systems of more than 25 vehicles

are considered to be representative of the cost of a contractor which would operate some significant portion of the fixed-route service of a large agency (e.g., 5 percent or more), then the relevant unit costs are \$2.29 per vehicle mile. This is 44 percent less than the average unit costs of the large bus operators in the sample. These particular cost differences are indeed relevant, for if contracting does become commonplace among larger transit systems, it will undoubtedly involve only segments of the system. Therefore, large private operators will not necessarily be needed to operate such services.

In view of this likely eventuality, an important comparison is between public agency costs for systems of different sizes and private contractor costs for contracted services of less than 25 vehicles and for more than 25 vehicles. The smaller contracted services can be reasonably compared to public agency operated systems of 250 or fewer vehicles, while the larger contracted services are best compared to the public agency services of 250 or more vehicles. This comparison is shown in Table 12, and indicates cost differences of 5 to 33 percent for systems of fewer than 250 vehicles, and 34 to 44 percent for systems of more than 250 vehicles.

#### THE ROLE OF COMPETITION IN MAINTAINING PRIVATE CONTRACTOR COST LEVELS

It is often suggested that periodic competition, not private sector operation per se, is the primary reason that costs for privately contracted services are typically below public agency cost levels. Because a variety of contract award mechanisms (competitive bidding, negotiation, etc.) are employed by the public agencies which contract for transit service, it is possible to explore their impacts on cost levels

TABLE 12

Differences in Average Cost Per Revenue Vehicle Mile  
Between Public Agency Fixed-Route Systems  
and Privately Contracted Services of Different Sizes

Size of Privately Contracted Service	Number of Vehicles Operated by Public Agency Service				
	<u>1-25</u>	<u>26-50</u>	<u>51-250</u>	<u>251-500</u>	<u>500 or More</u>
1 - 25 vehicles	4.8%	23.5%	33.0%	NA	NA
26 or more vehicles	NA	NA	14.2%	33.6%	44.3%

for comparably sized transit operations. The results of this cost comparison are shown in Table 13 for both fixed-route and demand responsive services.

The results of Table 13 indicate that if competition is truly the mechanism which keeps contract costs low, it is both potential competition as well as actual competition for contracts which accomplishes this objective. As can be observed in the table, non-competitive contract awards, in the formal sense, are generally not associated with higher unit costs than the costs of operators which were selected on the basis of formal competitive bids. It would appear that it is the "contestability" of the contract market, not whether the sponsor actually uses competitive bidding, which determines whether costs are high or low. Based on the similar cost levels for competitive and non-competitive contract services, it would appear that most contract markets are contestable, even if formal competition does not occur.

TABLE 13

## Contract Award Mechanism vs. Unit Costs for Comparable Services

	<u>Fixed Route Transit</u>		
	<u>Competitive</u>	<u>Negotiation</u>	<u>Renewal w/o Competition</u>
<u>Cost per RVM</u>			
1-25 vehicles	\$1.91 (36)	\$1.94 (32)	\$1.94 (27)
25 or more vehicles	2.41 (6)	2.31 (9)	2.60 (3)
<u>Cost per RVH</u>			
1-25 vehicles	\$28.69 (36)	\$30.24 (32)	\$30.12 (27)
25 or more vehicles	33.55 (6)	32.70 (9)	31.52 (3)
	<u>Demand Responsive Transit</u>		
	<u>Competitive</u>	<u>Negotiation</u>	<u>Renewal w/o Competition</u>
<u>Cost per RVM</u>			
1-25 vehicles	\$1.54 (52)	\$1.54 (14)	\$1.38 (31)
25 or more vehicles	1.37 (5)	1.92 (6)	1.36 (3)
<u>Cost per RVH</u>			
1-25 vehicles	\$17.64 (54)	\$17.24 (12)	\$15.68 (30)
25 or more vehicles	21.62 (5)	16.76 (5)	15.39 (2)

## CONCLUSIONS AND POLICY IMPLICATIONS

Transit service contracting is already a well-established and pervasive practice among the nation's smaller public transit systems, and widely used for specialized services among large transit systems. Because service contracting is concentrated among small systems, or used for limited services even when employed by large systems, it currently represents only a small fraction of the nation's bus transit delivery



system--5 percent of operating expenditures and 8 to 9 percent of service miles. Among large transit systems--those with 250 or more vehicles--it represents an even smaller portion of the service delivery system. As these large systems provide the vast majority of transit service in the United States--80 percent of service miles and operating expenditures--it is clear that they represent the primary market for increased utilization of service contracting. The large transit agencies thus hold the key to the success of UMTA's private sector policy initiative, even though they represent the most institutionally difficult environments in which to introduce service contracting on a significant scale.

The results of the nationwide survey also indicate that most service sponsors are already utilizing various contracting practices believed to promote cost-effectiveness. Most contracts are not long term, competitive award processes are used in the majority of cases except for contract renewals, and sponsors tend to supply vehicles for the service when they are expensive and have little utilization outside the contract operation. In addition, it appears that even when contract awards are not competitive, the contract market is usually at least contestable. The practices and outcomes of service contracting as it actually exists thus largely conform to the expectations of those who are promoting this form of service delivery.

Service contracting is unlikely to be a panacea for the transit industry's fiscal problems, but the evidence does indicate that significant cost savings can occur as a direct result of contracting (Teal, 1985; Giuliano and Teal, 1987). In addition, further cost savings may result indirectly from the establishment of a competitive environment for procuring service which will cause transit agencies to modify

compensation levels and work rules to remain competitive in bidding for service (Talley and Anderson, 1986). Judging by the current extent of the practice, service contracting appears to work well as a mechanism for transit service delivery. Numerous local governments rely on this form of service delivery. The question posed by UMTA's private sector policy initiative is whether this practice is institutionally feasible on a much larger scale than has been typical to date.