Opportunities for Increasing Competition in the Provision of Paratransit Services

Ralph E. Rechel, Institute of Public Administration, Washington, D.C.

The goals and objectives are examined that could be served by encouraging competition among various paratransit providers in a community. It is argued that subsidy mechanisms could be used to enhance such competition but that two major factors—statutory labor-protection provisions and local regulatory environments—act as barriers to this approach. Several instances in which paratransit implementation attempts have been affected by state or local restrictions are described, and the experiences, benefits, and problems of three methods for increasing competition among service providers—expanding services under existing regulation, requiring bidding for price and service contracts, and user-side subsidies—are discussed. Finally, it is concluded that equity between private providers and publicly subsidized systems should be studied.

Paratransit modes have been envisioned as a way to meet specific or general public transportation needs by using services that are much more flexible, more varied in character, and more nearly door-to-door than is typical, scheduled fixed-route transit service. The development of paratransit services in a community implies a range of fare provisions, a number of different service providers, and a price to users that can be less than that of conventional taxi providers. The avowed (although unofficial) policy of the Urban Mass Transportation Administration (UMTA) to date has been to encourage a wide array of service providers and a variety of service and price combinations. The services can be available either to all riders in a given locality or corridor or to groups specifically identified through public policy action.

Paratransit can also add to the transportation system of an urbanized area in a manner that can be used either to extend geographic coverage or to supplement base-period capacity in peak hours. The current program objective of UMTA appears to be to use federal subsidy funds to expand and improve paratransit services, either in demonstrations or on a continuing basis.

Common public policy objectives of increased competition are

1. To motivate operators to be more active in meeting a variety of local public transportation requirements and to use more than one type of vehicle (strict regulation may have stultified these types of service initiatives);
2. To preserve and strengthen existing private operators, particularly smaller proprietorships, through the use of additional transportation funds (although unqualified preservation of all operators should not be sought);
3. To maximize operators' shares of additional revenues by emphasizing service flexibility and the operation of the same vehicle in several modes of service during the day and adding capacity only as required either to meet total traffic demands or to fulfill service contracts (this objective may be stated as reversing the shrinking market of recent years);
4. To provide the public with the best possible comprehensive transportation services tendered in a service-oriented, rather than a restriction-oriented, manner;
5. To establish prices that are reasonable in relation to the quantity of service and might vary with quality of service and, possibly, with actual load factors; and
6. Not to obtain the lowest price for service from an industry whose wage rates are already relatively low, but to use marginal pricing when it would either increase total revenues or assist in providing a service desired by the ridership.

The type and array of services that would fulfill these objectives require the involvement of many and varied paratransit providers in a community. This kind of competition can in fact be stimulated by administering federal and other governmental subsidy funds in different ways. However, there are prohibitions and protections written into the Urban Mass Transportation Act of 1964 that may prevent subsidies from being used to stimulate competition. The most notable example is that of the labor-protection agreements required by Section 13c of the act. Other problems are created by the fact that relatively new public agencies may be administering subsidies and planning services. In addition, quite apart from federal restrictions, barriers to competition are sometimes created by the regulation of franchised services at the local level by traditional bodies and statutes.

The possibilities for using subsidy administration to stimulate competition among the potential providers of paratransit services are much greater in localities that have slight or moderate regulatory barriers or institutional problems. The most frequently required change in local service regulation has been the need to authorize
provision of shared rides by operators regulated as taxis. In other cases, relief is needed from provisions that forbid taxis to take contracts. However, as paratransit services (or demonstrations thereof) are extended to larger cities, local and federal regulations may more significantly affect their development. In fact, up to now, such regulations have controlled the development of paratransit by effectively restricting the implementation of some practices to smaller cities and towns and to locations that do not have labor organizations in public transport.

This paper begins by describing three case histories of paratransit implementation, then discusses the two major barriers to competition—conventional regulation and federal protective requirements—and finally describes examples of difficulties experienced by paratransit services in several communities. It examines three major methods of increasing competition among service providers. It should be noted that there is sometimes pressure on a public agency, in its role as an administrator disbursing UMTA funds, to be the financial guarantor for the unionized employees of private and public owners or operators who may not be directly involved, or even surely affected, by the provision of the services under procurement. This is a very real barrier for many legislators and public bodies because it is very different from guaranteeing employees of the principal transit service provider against losses as defined by the U.S. Department of Labor (DOL). This issue may ultimately more significantly affect paratransit procurement than does economic regulation. It is likely to be some time before this matter is more settled because DOL thus far has negotiated each case on an individual basis.

CASE HISTORIES OF PARATRANSIT IMPLEMENTATION

The largest users of paratransit service contracts at present are the Orange County Transit District in southern California, the Greater Cleveland Regional Transit Authority (GCRTA), which covers all of Cuyahoga County, Ohio, and the Pittsburgh-based Port Authority of Allegheny County. Orange County has been using bidding for a few years and has some accumulation of experience, Cleveland completed one bid letting about two years ago, and the Port Authority recently completed letting bids and will commence operation the end of February 1979.

Orange County Transit District

This is a countywide transit district formed by the California state legislature and authorized to provide a wide range of transit and paratransit services. The district operates an underlying network of regular route transit bus service as well as those services described as paratransit. Orange County has a population of 1.5 million that is increasing at a rate greater than the national average. The average age is rather lower than the national average. The present services are available to the entire population.

The paratransit services are largely dial-a-ride and use van-type vehicles; however, two of the services use small buses and, in two low-density areas, regular taxis are used. The contract program now includes two fixed-route loops in municipal centers and a service that is dial-a-ride during off-peak hours and regular-route during on-peak hours.

As part of the planning process, the entire county was divided into service areas that were ranked according to importance. Service has been initiated on the basis of this ranking and the plan is to initiate service in two additional areas each year. The annual cost is now approaching $5 million and about half of the designated areas are receiving service.

Operators have included private taxi companies (who are regulated by the municipalities), charter and tour bus operators (who are regulated by the California Public Utilities Commission), DAVE Systems, Inc., which is not regulated and has specialized in providing dial-a-ride service, and a for-profit ambulance service.

The subsidy payments provided through the contracts are paid on a vehicle-kilometer basis. In addition, there is an incentive feature based on a standard number of dial-a-ride passengers picked up per hour. An operator that is consistently lower than the standard is paid less than the base rate and one that carries more passengers receives a higher rate on a graduated basis. The district credits this incentive plan with its increase in average number of responses to calls (from 20 to 40/day). The incentive rate shares the productivity increase with the vehicle operators.

Originally, the Orange County contracts had a variety of termination dates because of the somewhat random character of the start-up of services. This has now been changed to a uniform termination date that greatly facilitates the selection of contractors and the preservation of even-handed competition. A typical bidders conference for a particular service will be attended by 9 to 12 prospective bidders, and four to six bids will actually be received. A number of providers usually bid on several services in different parts of the county.

The labor-clearance problems have been minimized because of the single-operator nature of the transit district, which combines the unionized regular-route transit service and the administration of a range of paratransit operations. In the initial labor-protective agreement, dating back about 10 years, it was specified that the district had the right to operate dial-a-ride services in addition to scheduled transit. The full import of dial-a-ride was not perceived at that time. This has been a major advantage in planning and managing services and has not worked a hardship on anyone because the total volume of business has been increasing on all services. [However, the two business-district loops operated with vans under paratransit contracts have become an issue in bargaining and may have to be converted to union operation within two years or be discontinued.]

Orange County has been involved in litigation twice. One taxi operator and a tour bus operator have sued on franchise questions. The taxi suit, by an operator authorized by the city of Orange, was lost by the transit district but then reversed in an appeal to a higher court. The tour bus operator, franchised by the California Public Utilities Commission, filed a suit but did not press it. Both litigants now have service contracts with the transit district.

The district believes that competition has had a favorable effect on the quality of service provided. A principal policy problem is that of divergent practices followed by the federal and the state governments. The effect of "the maintenance of local government fiscal effort" clause in Section 5 of the Urban Mass Transportation Act of 1964 is to hold fares at low levels in order to maximize federal dollars. But the state is pushing in the opposite direction in order to hold the state share of subsidy to as low a level as possible.

Greater Cleveland Regional Transit Authority

The paratransit service, operated as a dial-a-ride from a single central-dispatching facility manned by GCRTA,
covers all of Cuyahoga County, an area of more than 640 km² (400 mile²) that has a population of 1.6 million. Cleveland is, of course, the central city of the area. The average age of the population is higher than the national average.

The first time out, a number of bids for the service were received, but several were not responsive and the job was bid a second time. One of two responsive bidders was chosen, and in October 1976, GCRTA let a three-year contract (in order to amortize vehicles). The contract contains service—escalation clauses of which the counties were used in sectors they had traditionally served and where they were the only bidders. There was only one case where a nonprofit operator had a higher cost than a for-profit operator. A conference was held with all operators who submitted bids before the final negotiations, so that there would be a clear understanding of the criteria to be applied and the ground rules for decision making. In the final selection, for-profit and nonprofit operators were not pitted head to head in any sector.

The Port Authority provided the labor-protective guarantee. The unionized contractors were shifted so that they did not parallel any routes on which the Amalgamated Transit Union had coverage through the basic transit contract.

In Pennsylvania, taxis are regulated by the Public Utilities Commission, which also wants to regulate paratransit. It has granted some paratransit certificates in Allegheny County and in other counties. As it applies to Allegheny County, this has been challenged in court by the Port Authority, a matter that is still unresolved. The Port Authority has been sued by several taxi operators that seek to limit its ability to create and promote competing paratransit services, but the suit is dormant at present. The issue arose in part because a county legal opinion wished to relegate the regulation of social-service-agency transportation operators to the Port Authority.

THE THRUST OF CONVENTIONAL REGULATION

Our inherited regulatory framework has developed from practices in 18th century England, where public transportation provided by private, for-hire operators first became sufficiently important for regulation by legislative bodies. Each of the designated types of service and rate regulation developed at different times and circumstances, which has helped to create the separation of modes that has continued down to the present.

What we now call street transit, taxis, limousines, and service cars are regulated as separate lines of business that have individual service characteristics and different types of vehicles (the characteristics of which are usually specified in the regulations). As a rule, there has been no overlap in ownership, although taxi operators are increasingly active in the limousine or livery-car business.

The objectives of regulation have been to authorize a monopoly operation for street transit and to limit the...
interested in preserving private service providers and protection from competition—at least, a capacity limitation within their designated service markets. This system has naturally bred a high-fence mentality and a strong resistance to encroachment by one type of service on the territory of another. It is the protection of these traditional service franchises that is the basis for most of the lawsuits observed in paratransit implementations.

The enforcement of the monopoly or oligopoly position of existing authorized transportation services usually involves one of two types of actions. The regulatory body, on the complaint of one of its clients, takes interlopers to court and requires them to cease the unauthorized operation. The cease-and-desist order may be accompanied by civil penalties. Or, in a state where the regulatory commission does not have an active role in enforcement or is at the county or municipal level, the authorized carrier brings civil suit on the grounds of infringement of the legally awarded franchise. The only real difference is that, in the second case, the complaining operator must pay the legal costs.

Paratransit operations found to infringe on existing service authorizations have been subject to legal enforcement actions. For example, the Maxtaxy service operated by the Westport [Connecticut] Transit District was sued as an illegal competitor and destructive to business by one of the two local taxi owners who had refused to contract to provide service. After losing in the state courts, the operator appealed to the U.S. Supreme Court, which refused to hear the case. In another example, the Orange County [California] Transit District was sued by a tour bus operator for proposing a parallel public service. This suit was withdrawn after the operator decided to participate in a service contract with the transit district.

The Orange County Transit District also converted one dial-a-ride service to a regular route as the result of a suit by a taxi operator for infringement of his operating authority (because the transit district provides the only regular-route transit service, there was no external opposition to that shift). However, a reversal of the lower court decision at the state appeals court level allowed the district to convert the service back to dial-a-ride.

The threat of enforcement action is not relieved by the mere fact of public agency ownership or funding nor by the inclusion of paratransit operations in plans promulgated by official agencies. In Pittsburgh, the Port Authority of Allegheny County was confronted by actions of the Pennsylvania Public Utilities Commission, which created a new class of authorized services, separate and different from taxis, in order to provide for paratransit within the existing regulatory framework and to control it. The Port Authority challenged this position in court in a case not yet decided.

The massive use of private automobiles has almost completely eroded the monetary value of most of the monopoly or oligopoly franchises granted early in this century by regulatory agencies. This competition has debilitated for-hire urban transportation services to the point where many are now subsidized or have disappeared. It is for these reasons that publicly supported paratransit services are a matter of such strong interest. These long-term trends are, in certain cases (particularly where state commission regulation is involved), facilitating relief from restrictive provisions. Both regulators and the legislators who control them have become interested in preserving private service providers and have often removed obsolete restrictions.

METHODS FOR USING SUBSIDY FUNDS TO INCREASE COMPETITION

There are at least three methods for increasing competition among service providers, all of which have been adopted at least on a limited basis. (The first frequently accompanies the second and third.)

The first is to expand the variety of services provided under regulation, including increasing the number of providers and the diversity of services or operating methods authorized. This method would establish the paratransit mode of operation under commission regulation and would continue the existing authority over fares. In essence, it would recognize the large number of providers of special-client services now found in urban areas; these services have not come under regulation because they are not offered to the general public, frequently do not charge fares (are not for hire), and have many restrictions as to the services rendered. The problem with this approach is the frequent lack of interest and understanding on the part of traditional regulatory bodies. (This alternative will not be further discussed but would be effective under favorable conditions.)

The second is to require prospective providers to bid competitively on a price-and-service basis for authorization to operate services or pieces of services that have been selected to receive operating subsidies from some level of government. The contracting device would fix the number of providers, the period of service, the fares to be charged, and the cost of the service to be paid by the administering agency.

The third is to provide the subsidy funds directly to the potential riders, i.e., a user-side subsidy. This gives the actual users of the service close control over the payment of the subsidy to transportation operators rather than leaving it in the hands of a supervising
bureaucracy. The administering agency can then enlist a wide variety of transportation providers in participation in the plan, and riders will have a wide range of choices, each with a somewhat different combination of convenience, service, quality, and price. This method almost always requires the relaxation of traditional service regulations to obtain the best results. The providers earn their shares of the additional revenues flowing from the subsidy by rendering desirable services that have a market or demand among riders who are subsidized.

Competitive Bidding

In the last few years, bidding appears to have been used in a dozen or so cases of paratransit procurement. But, because not all have involved federal funds (or at least UMTA funds), a specific count has not been made. Some notable cases have included those of the Orange County Transit District, Westport, GCRTA, Wheels, Inc., in Philadelphia, the Port Authority of Allegheny County, and Columbus, Ohio.

The services procured by bidding have most frequently been demand responsive—some type of dial-a-ride. Some have included the provision of dispatching services by the contractors and some have not. In the cases that did not have contractor-provided dispatching, the administering agency has usually performed this function, an option that increases its control over the service. Specific service characteristics—such as a precisely defined geographic area of service, dedication of specified vehicles and drivers to service, dedication for short periods (such as 30 min), length of response time after request for service, and type of vehicle are usually required.

A frequent variation is the combination of a subscription or charter type of service and a dial-a-ride service. Some cases require that regular routes be served at specified times of day. In many cases, operators are allowed to choose the type of vehicle, as long as the capacity criteria are met.

Regular service routes are sometimes put out for bid as individual pieces of work. These are often shuttles or loops in the more densely developed or commercial areas of the urbanized region.

The bidding process consists of the development of specifications by the metropolitan planning organization or the administering agency, advertising, mailing of requests for proposal (RFPs), evaluation of bids, and selection of prospective contractors. The direct mailing is particularly important in the early phases of the relationship between the agency and the local service providers. If there are relatively few of the latter, operators in adjacent jurisdictions should also receive RFPs, as should all types of charter and school bus services in the region. It may not be worthwhile to send RFPs to all nonprofit operators, but this should be done if there is any doubt. The objective is to gain access to a wide array of providers who can meet varying service needs.

Because of the complete lack of experience in bidding on the part of local taxi operators, particularly owner drivers and family-operated firms, there is particular need for technical assistance in bid preparation. This can be provided in part at bidders conferences, but additional individual assistance will often be necessary to increase the number of useful proposals. Failure to provide these services will give a major operator that has previous bidding experience, such as a school bus contractor, a significant advantage. Another effect of the lack of experience in bidding is that deadlines must be emphasized and it must be demonstrated that they are meaningful and will not be adjusted for private convenience (the latter problem suggests longer lead times on the first procurements of competitive paratransit services).

The selection of service providers on the basis of bids received has involved the following practices:

1. Giving the work to the lowest bidder if the bid is reasonable and the service is responsive to the RFP (the majority of bids are won by the lowest bidders);
2. Not giving the work to extremely low or naive bidders;
3. Selecting large operators bidding for many pieces of work for only the most appropriate pieces and passing them over for others, even when they are the low bidder;
4. Spreading the work and maintaining as many potential providers as possible, a practice that has clear long-term benefits for competitive paratransit procurement and accords with UMTA policy; and
5. All other things being equal, deciding some bids on the basis of availability.

Where nonprofit operators are available (usually established ambulance services or services for the elderly and handicapped), they should be invited to bid if their equipment and capacity are at all suitable. In reported cases, their operating costs are not widely different from those of private for-profit providers although the structure of the costs may be quite different; the vehicle operating costs are higher (due to low vehicle use) in nonprofit services, and this appears to offset the financial costs and profit elements in the private cost structure. If there is no firm requirement to take the lowest bidder (an undesirable rule in any event) and the private competitor can be given another piece of work, it may be desirable to award a bid to a non-profit operator even if it is exceptionally high, in order to determine whether the incremental change in vehicle operation will affect the costs and to ensure additional competition in future biddings. The desirability of this course would depend on the relative amount of competition.

The data requirements for paratransit management are much more extensive than those thought necessary by traditional taxi and bus operators. This arises in part from the need to evaluate the costs and benefits of specific subsidized services and in part from the need to account in detail for the use of special-client service funds. The data collected should be organized and processed in a manner that feeds back into the next bid specification writing and this process iterated to adjust and refine the pricing of the services procured.

If it is decided to establish performance criteria and to evaluate the service providers who are under contract, either for current program administration or for ranking of future bids (or both), any additional data required for this purpose should be included in the information-supply specification. There is no question but that the private operators will have a greater paperwork burden if they are subsidized. The need to provide these data may affect their employee selection practices.

The experience to date with the use of bidding as a method for increasing competition among potential providers of paratransit services indicates the desirability of the following actions:

1. Hold early informal discussions with existing service providers and emphasize the advantages to them of the additional funds to be made available for public transportation. Take the position that there will be substantial benefits for all and that contract letting procedures will prevent monopoly. If a franchise-protection suit seems inevitable, propose that it be on a friendly basis to determine the law in the specific case and that
no injunctions be requested until actual damage can be proved.

2. If a protracted legal delay appears to be inevitable, consider the possibility of some type of financial guarantee for three to five years.

3. Be prepared to provide technical assistance to prospective but untrained bidders. (Some delicacy and discretion will be necessary on the part of those extending this assistance.)

4. Have all service contracts expire at the same time in cases where a number of pieces of work in the same region are under contract, particularly if a number of the same providers may bid on two or more pieces. (This facilitates allotting all the work at one time and using reasonable and equitable standards in ranking the bids for each piece of work.)

5. Recognize that some of the more marginal potential service providers will not be successful. Avoid the position in which everyone is guaranteed a living, unless there are very few possible providers for particular services.

6. In cases in which one or a few big operators attempt to monopolize the work by a large number of relatively low bids and the obvious capability to provide service, allocate the work among them and others. Base this decision on criteria for selecting local providers; these should sound reasonable and might be published or made known in bidders conferences before the competition.

7. If securing labor-protective agreements is a problem, particularly for a specialized piece of work such as a regular-route service, consider the possibility of administering the available funds in such a manner that no federal funds are used for that particular piece of work. (This assumes that no protective agreement would be required for the use of local and state funds.)

8. If litigation does take place, award the litigants contracts if they enter reasonable bids. They should be urged to bid from the earliest conversations.

Increasing competition through competitive bidding can be effective, but the attitudes of all parties are of the greatest importance. It is fruitful to interest all parties in providing public service as a manner of advancing self interest.

User-Side Subsidy

Up to the present, user-side subsidies have been employed in Birmingham and Montgomery, Alabama; Danville, Illinois; Lawrence, Massachusetts; Kinston, North Carolina; Oklahoma City; and the entire state of West Virginia [the Transportation Remuneration Incentive Program (TRIP)]. UMTA money has been used in smaller communities; Montgomery, which has a population of 150,000, is the largest. All were cases where shared-ride service was already authorized for taxis or where a change in regulation was readily available. Montgomery is the only case where there was a transit union involved and the necessary clearance was agreed to by all parties. The smaller towns have no bus services, only taxis.

The urban transportation operations available have been taxis or dial-a-ride services. TRIP has not only involved almost all of the established transportation service providers in the state but has created a number of new ones. Many of these provide modified regular-route service, with or without schedules.

The administering agency makes the supplemental funds directly available to the riders or users, usually for use on any existing public transportation service. Up to the present, the major use has been for taxi-type services, mostly in smaller communities where there were no other providers. Because the subsidy funds are allotted directly to eligible riders by the administering agency, it has been easy to control the funds available for particular purposes in a given period.

The service provider receives a ticket or slip from the user that is then submitted, with an invoice, to the disbursing authority for payment. There is a direct incentive to the operators to maximize their share of the new source of income. It is important that operators be able to tailor their services and types of vehicle to markets and that regulations be relieved or waived accordingly.

Tickets, usually issued for 50 cents each or in the amount of the local transit fare, are the simplest from the transaction standpoint. The only problem that has arisen is taxi fares that do not break even, but experience should convince the drivers that the tickets are as good as money and that they can return change for the difference. Tickets have been objected to on the grounds of fraudulent use—that is, use by people other than the original recipients. In practice, this has not been judged a serious problem. Where regular-route, flat-fare services are used, tickets are by far the most convenient form of transferring the supplemental payment to the operators. In at least one demonstration service, tickets were sold to eligible riders at a discount from face value, similar to food stamps.

Charge slips are a more complicated type of ticket because they must be signed by the user at the point of sale in the presence of the driver. This practice was believed likely to reduce fraudulent use. These slips carry additional information on the origin and destination of the trip, time of day, cost, and rider or program information (which may provide low-cost access to such data). From the daily transaction standpoint, charge slips are a time-consuming addition to everybody's paperwork burden. The education levels and advanced age of many of the persons involved add to the problem. The only "frauds" uncovered thus far have been by helpful taxi drivers who filled in the names for people who could not write easily. Charge slips do have the convenience that they can be filled out in any money amount, subject to an upper limit. However, in flat-fare transit service, their nuisance value would be rather high.

A central charge system has been used as part of the dispatching process in Cleveland and Oklahoma City and will be used for Agency on Aging clients in a forthcoming Pittsburgh service. Clients of the subsidy administrator are assigned account numbers (also necessary for charge slips) and, when calling for service, give the account number. As part of the computerized dispatching process, this number is verified, the rider's account is debited, and the service provider's account is credited. Vehicle operators are instructed to mark their manifests as prepaid. This is an attractive method for use with dial-a-ride or taxi services, but it is not readily adapted to regular-route transit unless magnetic recording is in use.

Frequently, an office of the city government separated from welfare functions or an office in the regional planning or transportation agencies is used to verify client eligibility and to distribute tickets or charge slips. This approach avoids a welfare connotation for those who are sensitive on this point. A further advantage of this type of system relates to the probable extension of subsidy to much wider riderships. Such offices should not be concerned with establishing rider eligibility, only with identifying persons whose eligibility has been established elsewhere.

In the Kinston demonstration service, tickets are sold by a city employee who goes to a different neighborhood.
each day. This relieves the need for either personal calls or mail transactions.

Two types of data are required in the user-side subsidy system. The first is a record of the transaction that will provide the transportation operator with a document for which payment can be disbursed. The second is the need of the administering agency to know the number of trips made and the service patterns. One of the advantages of charge slips is that this information is produced on a transferable document at the time of transaction. Tickets require coding on manifests, or separate manifests, and can be tabulated by bus drivers only if they have key-type fare-boxes. They can, of course, be counted when fare-boxes are emptied.

The experience to date with the employment of user-side subsidy as a method for increasing competition among potential providers of paratransit services indicates the following results:

1. If we assume the cooperation of operators—for which there is an incentive because of the injection of new money into the local transportation business—the only real problem is Section 13c clearance where UMTA funds are used. Except for the shared-ride-taxi provision and the need to adjust operating areas, there have been no regulatory problems that were not easily adjusted.

2. The labor clearance is a difficulty where a third-party private operator (such as a suburban bus line) might be involved. Local governments are not ready to guarantee third-party private employees against loss, especially as the actual effect of user-side subsidies in this regard is difficult to forecast at the existing level of experience.

3. This method of subsidy administration uses market forces (including capacity increases) to induce providers to adapt their services. As to the model distribution of the funds, persons who have a limited transportation budget, even though it is larger than formerly, will still have an incentive to use the most cost-effective services.

4. Program administrators do not have to become involved in bidding and contracting for specified services and, hence, with the business problems and decisions of small transportation operators. This is both a simplification and a relief.

5. An issue that may arise is the reduction of fares. Although taxi and transit fares are specified by regulators or by transit authorities and it is clearly illegal to charge higher fares, it is not usually illegal, per se, to charge lower fares. Active competition among a number of small service providers can often result in some discounting during hours of otherwise low demand and vehicle use. Such a circumstance would be a part of the desired increase in competition and would, in fact, show that the program is working.

6. It is easier for the administering agency to control the flow and allocation of funds going to individuals in small monthly or quarterly amounts. Specific market segments, as identified by socioeconomic criteria, can be much more sharply targeted; for example, the market may often be smaller than the group of "all senior citizens".

7. User-side subsidy avoids making the specific number of vehicles or jobs employed by a contractor into objects of public policy, either for continuation or discontinuation or for price-inflation adjustments. This is an easy eventuality when the subsidy is provided directly to operators, either through service contracts or through deficit coverage. Under user-side subsidy, providers adjust their services and resources applied as they respond to market conditions—they cannot lose a contract, they can only lose riders because of the kind of service provided.

8. UMTA believes that user-side subsidy is less expensive for services received than are contracted dedicated services.

INTERACTION BETWEEN PROVIDER COORDINATION AND PARATRANSIT PROCUREMENT

Concern has been expressed that the current efforts to coordinate the services of nonprofit operators that serve special clients, largely the elderly and handicapped, could unfavorably affect attempts to increase competition in the provision of paratransit services. Unless the coordination effort reduced the number of operators to as few as two or three, it should act to strengthen competition. In fact, the coordination effort should be accomplished before competitive procurement, in part because this would reduce the total amount of funds required to provide the entire body of paratransit and special-user services.

Coordination should increase the use (kilometers traveled per given time period) of both drivers and vehicles and improve dispatching and control functions, it may result in consolidation of maintenance operations, it could reduce the total number of vehicles required for a given amount of service, and it would reduce the number of very small providers. The net result of these actions should be a residual number of operating entities that would be numerous enough to provide some competition and, more importantly, would be more efficient and lower cost than otherwise, a desirable objective.

In sum, coordination seems to support, rather than to oppose, a procompetition policy. An area so small that coordination would reduce all providers into a single organization is an area in which there will be little competition in any event. In respect to overall competition, it appears that a well-coordinated special-client service will shift a possibly significant amount of traffic from existing transit and taxi services. Because this is traffic well suited to paratransit, it may be reallocated again in the course of a competition-based development of paratransit services.

ISSUE OF COMPETITIVE EQUITY BETWEEN FOR-PROFIT AND NONPROFIT OPERATORS

Several administrators using competitive bidding for the procurement of paratransit services have desired to use the services of nonprofit providers (usually those connected with an institution or affiliated with a specific special-service program). These operators frequently use parttime or volunteer drivers, receive management services from the parent organization, and have vehicles purchased by various public funds. A bid reflecting only the out-of-pocket costs of such operators clearly would not reflect the full cost of operation.

Private operators claim that their bids must reflect full costs of operation while those of nonprofit operators have many types of hidden subsidy and never reflect the costs of vehicle financing. Although there is truth to such allegations from an accounting standpoint, it is not the whole truth. One of the most important contributions to the total costs of a paratransit operation is its daily or annual vehicle use (or vehicle-and-driver use if the latter are full-time paid), and this greatly favors private operators and disfavors nonprofit operators, most of whom have very small operations.

At this juncture in paratransit development, it might be advantageous to conduct detailed case studies of the
costs of these two types of operators in localities where both had contracts to provide service. It must be noted that the receipt of a paratransit service contract could significantly increase the vehicle use of a nonprofit operator, thereby reducing his or her effective cost per kilometer, but it would appear that, in most cases, nonprofit operators will continue to have daily or weekly vehicle use that is substantially lower than that of for-profit operators.

Some of the possible differences in the cost structures of private for-hire and public nonprofit operators should be noted:

1. Financing the purchase of equipment, especially any interest and financing charges;
2. Depreciation (this accounting should be required of all bidders in any event);
3. Differences in driver pay (this could cut both ways, i.e., in cases of low taxi wages and public agency drivers paid full-time civil service rates);
4. Reflections of full cost where building space and equipment are used, which is important for nonprofit operators in certain institutional situations; and
5. Possible sharing of overhead (such as personnel and accounting) with other users in the institution.

In sum, competitive equity is a delicate issue in some respects, but the evidence to date indicates that its effect may not often be decisive. Until more information is available, each jurisdiction will have to determine equity within the framework of local conditions, although it may be inopportune to have the two types of operators bid head to head for the same piece of work.