

## COST ALLOCATION AND CONTRACTING

In negotiating contracts for sharing services or costs, the availability of common units of costs and service makes the negotiation process easier and workable. There still remain, however, important issues of how costs are allocated, even within the uniform transportation accounts. The way in which these costs are allocated has a considerable bearing on how contract agreements are worked out, particularly in relation to the rates that may be used for billing purposes.

The allocation of direct operating (variable) costs tends to be relatively easy in that such costs can be typically assigned to directly related transportation services. However, since fixed costs are not always so directly and simply related, a number of possible variables can be used as the means for allocation. For example, fixed costs may be allocated among functional categories by using number of passengers, vehicle kilometers, vehicle hours, or other measures of service levels. The particular measure that might be used for allocating fixed cost will depend to a considerable extent on the nature of the particular service; the cost-allocation models used for demand-responsive services are considerably different from those used for fixed-route or charter services. It is essential that, in considering which cost-allocation formulas to use in arriving at contractual agreements on unit cost of service, there be agreement on the method of cost allocation.

In urban areas (particularly in areas where drivers

may spend many hours in their automobiles in congested traffic conditions), vehicle hours are typically used because they tend to reflect more accurately the cost intensity of the use of vehicles as well as cost and labor. In rural areas, vehicle kilometers may be more relevant because of the long trip distances involved. In most rural settings, vehicles tend to move easily and are only occasionally subjected to congested conditions. Since vehicle-kilometer data are relatively easy to develop (in contrast with those for vehicle hours), vehicle kilometers may be a perfectly reasonable (and simple) basis on which fixed cost can be spread. To the extent that there is considerable variation in the mix of trip lengths and service categories within a coordinated system, a single contractual billing rate may not be appropriate. It may be necessary to develop two (or even three) separate rates—some expressed on a vehicle-hour basis and others on a vehicle-kilometer basis. Where demand-responsive systems are involved, the cost-allocation formulas and billing rates may have to include utilization or load factors as well.

## REFERENCES

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2. Urban Mass Transportation Industry Uniform System of Accounts and Records and Reporting Systems. Arthur Anderson and Co. and Urban Mass Transportation Administration, U.S. Department of Transportation, Vols. 1-4, Jan. 1977; NTIS, Springfield, VA, PB 264 877 and 264 880.

### *Abridgment*

## Iowa's Approach to Transit Marketing

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Through the years, Iowa has been no different from other states in its "social consciousness" about citizens who need help. Gradually, however, government has been expected to "take care" of older people, the mentally or physically handicapped, the poor, and children. Some feel that, in pouring money into countless federal agencies, the federal government has overreacted to the problem. Eventually, there were 28 federal agencies handling 114 programs in the area of transportation alone. There appears to be enough money available, but finding and getting it is another story. Unfortunately, there is no overall direction, plan, or program—let alone a way to find out if the money from the most commonly tapped sources is being used to solve the problems in the best way.

Especially in rural areas, special programs like congregate meals, medical services, and sheltered workshops are no good unless people can get to them. That means transportation. In the past, little transportation was available to pick people up and take them to these special service locations. So most agencies began transporting their own clients, not knowing—and in some cases not caring—what transportation was costing or what anyone else was doing. Marketing consisted

of publicity for the agency's specific social programs, and transportation was considered only an adjunct of these programs.

By about 1975, survival was the issue in the private sector. Intercity bus service to small towns had declined, rail passenger service had all but disappeared, and local taxi companies could barely make ends meet. Although effective marketing was needed, it was generally thought to be unaffordable, if it was understood at all. When Iowa began establishing order out of this chaos, coordinating and consolidating 300 or more public and private services into 16 regional systems, marketing was an essential element in the process.

At this point, let us define marketing. "Marketing is not an end product. It is a continuing process of identifying consumer needs and providing services or products to satisfy those needs. It is an attitude and an approach to problem solving that is oriented to the consumer. It extends beyond the narrow concept of advertising, promotion, and printed information into systemwide activities such as research, maintenance, and service development.

Rural transit marketing in Iowa really began in 1975 when the Iowa Department of Transportation (DOT) be-

gan to find out exactly what resources existed in the state and what transportation was being provided by whom. But it wasn't that easy. There was no one place to find out. State DOT staff collected newspaper articles, asked local agencies for information, and tracked down rumors for about a year. The results were published in the state's first transit service directory.

When Iowa regional planning agencies began their preparation of the first regional transit development programs, they used this directory as a base, performed more detective work, and identified additional services. From this inventory, the regions found out who was being served. The next step was finding out who was not being served. Basic market research was needed, and several approaches were used.

Statewide attitude surveys on local and intercity travel patterns, needs, and desires were conducted by the state DOT in 1977. In 1978, a cooperative research project was undertaken by Iowa regional planning agencies and the state DOT. Passengers were asked for their ideas about transportation through extensive on-board surveys, and social-service agencies were surveyed and asked about their clients' travel needs. Regionalized household surveys were conducted by mail for a dual purpose: to find out about potential riders and to discover the degree of public support for transit. Articles were placed in newspapers throughout the state to generate self-identification information from individuals of limited mobility (this approach was not effective).

All of the data collected were organized, tabulated, and used in each region's transit plan to provide direction on how to improve existing services and make more transportation available. In addition, survey results were used by the Iowa DOT to shape overall transit programs.

Market research has been only a part of a statewide program in marketing, communication, and awareness. Research indicated that most people did not realize how much service was actually available or what the purpose of public transit was. A large percentage knew that there were buses for specific groups, such as the elderly, but these were not regarded as public transit. The first program had several parts:

1. One television spot and a companion radio spot,
2. Four newspaper advertisements,
3. Two posters, and
4. A brochure with a tear-off postcard for citizen comments.

The Iowa DOT investment in this program was \$9800. The media materials were all placed as public service announcements. The participation of the media exceeded expectations. More than \$90 000 of media time was obtained; this represented more than 29 000 000 exposures.

Local marketing efforts in rural areas during this period were minimal since the regional systems were concentrating on organizational development. To fill this gap for a time, a second statewide campaign was developed and implemented. Four 30-s television and four 60-s radio public service announcements were produced on the themes of energy, economy, planning, and public service. In 1978, these spots were still running on stations statewide, and media participation had exceeded 1977 results.

Two additional household surveys were conducted by telephone, and a marketing manual for transit operators was begun. A marketing tool was developed for transit systems through a project called Focus on Transit. This program consists of a package to be used for presentation to fourth through sixth graders on the following subjects: community awareness; the public transit partner-

ship—bus and driver; the big three—safety, pride, and respect; and HELP (Help Eliminate Litter and Pollution). Each module consists of manuals, a short-story slide presentation, skill sheets, games, and puzzles.

Regional systems in Iowa have reached the point in their development where advertising, promotion, system image, and public relations are critical to success. One of the major areas of attention is that of changing the established image in rural areas of buses for the elderly, for Head Start, and for the handicapped so as to convey to the public and the passengers the idea that everyone can ride on all buses. That is why the names of regional systems are changing. Now we have systems called P-RIDE Transportation, Scenic Valley Transportation, Country Traveler Transit System, North Iowa Area Regional Transit System, The Trolley, and East Central Transit, not to mention ITS, SITS, SATS, and SEATS. Pricing strategies are also receiving attention; a better system and combination of donations and fares will make system revenue more predictable and the passenger's participation more equitable.

Telephone information systems are being organized. This is clearly an especially frustrating area for many people. Imagine trying to find a transportation number in the telephone book (especially if you don't know the name of the agency), going through the process required to qualify to use the transportation, and then finding out that the transportation is only for certain types of trips.

Several regional administrative agencies are designing comprehensive local marketing programs for their systems. Logos are being designed, same-format information brochures are being prepared for system components, counter cards are being distributed, radio and newspaper ads are being produced and placed, and general marketing plans are being written. Some of these programs are being prepared by local advertising agencies, and some are being developed in-house with DOT assistance.

If one subscribes to the philosophy that marketing permeates the entire system, then other types of assistance from the state DOT should be mentioned. The better management and service are, the more there is to market. The Iowa DOT is

1. Working with state regions to develop transit plans to make the best use of their own people and resources and improve service to the public;
2. Helping regional systems to manage better by putting together seminars and workshops to reinforce or improve management skills;
3. Promoting better operations through training programs for drivers, mechanics, and service persons as well as through individual operational analysis; and
4. Working on making the financial requirements easier by simplifying applications, developing a single reporting package, and coordinating with other state agencies.

This is all in addition to helping to get people on the buses by the previously mentioned statewide awareness programs, market research, and individual marketing plans and assistance. These programs are backed up by state money for planning, administration, and operations.

What does the future hold for rural transportation in Iowa? If we keep the 10 transit commandments in mind, we can't go wrong:

1. Thou shalt not propose universal solutions.
2. Thou shalt create a climate for local initiative and solutions.
3. Thou shalt not cause people to feel foolish by

forcing them to ask, "Where does this bus go?"

4. Thou shalt never provide technological solutions for sociological problems.

5. Thou shalt never force introductions between strangers.

6. Thou shalt not cause long waits for passengers.

7. Thou shalt bring the bus to passengers and passengers to their destinations.

8. Thou shalt be dependable, predictable, safe, and convenient.

9. Thou shalt satisfy stockholders as well as customers.

10. Thou shalt never be a "bus company."

A good foundation has been laid in Iowa through the dedication, commitment, and hard work of many people. A great deal of marketing work always needs to be done in the areas of special promotions, consistent media advertising, effective and planned public relations, realistic goals and objectives, useful monitoring and evaluation, development of a system image, and financing, not to mention the 10 objectives listed above. Good rural transportation will not happen by itself. It takes more than good plans, good programs, and good intentions. People make the difference.

#### *Abridgment*

## Federal Regional Councils and the Uniform Cost-Accounting Project

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The General Accounting Office (GAO) has identified 114 federal programs that provide federal assistance for passenger transportation and has concluded that there are no statutory or regulatory instructions that specifically prohibit the coordination of transportation resources. It has, however, identified a number of hindrances to coordination (1). This paper focuses on the development of a common cost system that should increase coordination between agencies and providers of transportation.

### FEDERAL REGIONAL COUNCIL SYSTEM

The Federal Regional Council (FRC) system is an interagency coordinating mechanism. The idea began in the late 1960s. In 1969, 10 standard regions were created.

Initially, regional councils consisted of the principal regional officials from 5 federal agencies. That number has been increased to 11 member agencies; others serve on an ad hoc basis as appropriate. The councils were given responsibility for interagency coordination and intergovernmental relations with the objective of improving the federal grant delivery system. The chairperson of a council is a regional official from one of the 11 member agencies and is appointed by the President to a 1-year term.

The councils as such have no budget, no grant authority, and no line authority over any of their members. Each agency assigns a staff person to work with a council.

Overall direction for the FRCs is vested in the undersecretaries group for regional operations. The Office of Management and Budget is responsible for oversight of FRC activities.

Some FRCs have assumed major responsibility for improving rural public transportation. The Region 4 FRC established a rural task force in 1972 to develop technical materials, exchange information between

agencies and states, and assist with and review proposals for the Rural Highway Public Transportation Demonstration Program established under Section 147 of the Federal-Aid Highway Act of 1973. Region 1 has also established a rural transportation task force, and it is planning a regional workshop for providers of services, sponsoring agencies, and client groups that will include information on institutional, operational, and financial aspects of rural transportation. The development of a uniform funding process and a simplified reporting system will be a major part of the workshop.

The development of a demonstration of a simplified cost-accounting system has also been the major effort of the FRC in Region 7. The Rural Transportation Committee in this region includes representatives from federal agencies, each of four states, and state associations of county officials. The committee has pursued two approaches: (a) developing strategies that would lead to better coordination and (b) developing the tools needed for better measurement of cost and effectiveness.

One important tool is cost accounting. It helps to eliminate biases and turf issues. Further cost information is essential to equitable contractual arrangements between public agencies and public and private providers of transportation services. There have been instances in which public agencies believed that private transportation firms charged exorbitant fees and that they—the agencies—could provide the service themselves at a lower cost. Generally, such a view could not be documented because of the lack of uniform cost information. Initiation of service by public agencies has in some cases decreased the revenues of the providers of private transportation. Thus, there is sometimes a barrier between public agencies and private providers. There are also problems in coordinating the vehicles, funds, and clients of different public agencies, primarily because of turf issues, insurance rates, interpretation of program guidelines, and lack of a common cost-accounting system for rural systems