

Summary

So far most of the activities have been responses to immediate problems. It is too early in the process to have generated a framework within which to judge the equity, performance, and precedent of these programs. On this latter point, some concern was expressed that the more the private sector indicates willingness to pay to get improvements underway, the more government will pull back. This suggests that there is a need for a set of principles or a framework within which to judge equity.

So far it is difficult to show the economic benefits of some of the transportation management programs. Their value as an alternative available to individual employees at times they need it or to a larger society in times of energy shortage, for example, may be as important as actual day-to-day change in the transportation characteristics.

II. MAKING MORE EFFECTIVE USE OF PRIVATE PROVIDERS

A. Service Contracting

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The public transit industry faces two great challenges. First, costs have been insufficiently controlled, rising more than 60 percent ahead of inflation from 1976 to 1982. Second, conventional public transit services have not adequately met the mobility needs of lower demand areas. To maintain service within constrained budgets, public transit authorities have increasingly contracted for service with private providers. The trend began with smaller agencies and has spread now to the largest transit authorities. A variety of services are being contracted, ranging from demand responsive to conventional fixed route.

Because of the importance of this emerging public-private service alliance, the Conference on Transportation Partnerships included service contracting as a primary topic. Experts from both the public and the private sectors participated. A summary of recurring themes follows.

Cost Effectiveness

Comparable service can be provided by private operators for a minimum cost savings of 35 percent. Often, vehicles are supplied by the private providers, reducing capital grant requirements. Cost savings of up to 70 percent and subsidy savings of 97 percent have been documented.

Because private provider costs increase at or below the inflation rate, even greater long-term savings can be anticipated. In some cases, contracted service costs have decreased from one year to the next.

Market Orientation

Conventional public transit services are not well matched to lower demand areas. As a result, suburban jurisdictions have withdrawn from regional transit authorities, removing locally generated subsidies. Private providers offer greater flexibility to provide market-oriented service to lower demand areas.

Competition

Competition induces cost control and market orientation. Private transportation providers operate in a competitive environment.

Conversely, public transit is characterized by monopoly. It began with the private companies which held exclusive service franchises, and continues today as these franchises have passed to public agencies. Monopolies maximize revenues and impose products on the market. Public transit exhibits these characteristics through super inflationary cost increases and services which are poorly matched to suburban markets. The antidote to monopoly is competition.

Survival in a competitive environment requires cost control and sensitivity to the market. Public transit can obtain cost control and market sensitivity through competitively bid service contracting. The benefits to riders and taxpayers are substantial.

The Evolving Public Role

Service contracting focuses public transit policy on the rider. The public transit agency sponsors service, retaining service ownership and full policy control. The privately provided service is an integral part of the public transit system and is monitored to ensure quality and compliance with contract provisions. The services with the poorest fare return should be contracted to private providers so that deficit savings can be maximized.

The essential policy role of the public transit authority is to develop the system, establish fares and ensure service quality, while minimizing public costs. Directly providing all of the service necessitates inordinate attention to the mechanics of service delivery. Service contracting permits the public transit agency to focus more clearly upon its mission of service to the riders and stewardship to taxpayers.

Barriers

There are impediments to service contracting, all of which can be overcome. Transit employee concerns can be addressed by pacing the conversion to contracting. Some have questioned contracting, confusing it with the franchised private transit systems which predated the public takeover. The similarity is a matter of semantics and not of substance. Under contracting, full public control is retained, and no private franchise is granted. Service contracting is a logical next step in urban transport.

Conclusion

Service contracting has resulted in improved cost effectiveness and market sensitivity. As financial and market challenges continue to intensify, it will be utilized even more increasingly.

B. Private Bus Operations

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In recent years there has been a pronounced increase in the utilization of private bus operators in public transportation. Contracting services to these operators has better positioned public transit agencies to:

1. Lower operating costs and subsidies
2. Contain cost increases
3. Obtain capital grant savings
4. Establish innovative services
5. Effectively control service quality

There is a large potential supplier market of private bus operators, from which services may be purchased by public transit authorities. These suppliers include operators of charter, airport, intercity, transit service, and school bus service.

In the New York City area private operators pay the same wage scale as the New York City Transit Authority. More than 600 buses are in daily service, and total subsidies are less than the gross receipt taxes which are paid to the city.

In Los Angeles private bus companies provide subscription services to major employment centers. More than 100 such buses carry almost as many passengers as the Southern California Rapid Transit District park-and-ride services. A study by the Southern California Association of Governments indicated that contracting of public park-and-ride services to these private operators would achieve cost savings of 50 percent, and subsidy savings of 97 percent. The savings would actually be more, because the private costs included vehicle capital costs, while the public costs did not.

In Chicago private subscription services were established in response to substantial commuter rail fare increases. Now, about 75 buses are in operation without public subsidy. Private transit operators are also providing similar service in Washington, Boston and other areas. Private bus operators can provide effective contract service in various public transit markets.

No public transit service is more costly than commuter express. These are usually operated only during peak hours, and thus incur substantially higher labor costs in relation to the service hours provided. For example, in Los Angeles about 45 minutes of service is obtained for each pay hour on all day services. However, on services which operate only during peak hours, such as commuter express, only 21 minutes of service is obtained.

Even in the face of this evidence some transit agencies continue to consider commuter express service as relative revenue producers rather than the deficit producers which they are. This results from using average costs, which are insensitive to the high costs of peak service. Peak period commuter express services are far more costly than the system average.

Even with premium fares, the subsidy per passenger tends to be far above the system average, commonly \$2.00 or more. Comparison of these high subsidies to the much lower subsidies on high demand local services raises a question of equity. A Los Angeles study showed that commuter express services are subsidized at rates seven times greater than central city local services. What makes this equity question even more compelling is that public agencies can purchase such service for much less than they can produce it. Contracting for commuter express service can free funding for transit service to other markets.

Private bus operators are providing contracted commuter express services in Los Angeles, Chicago, Boston, Kansas City, San Francisco, San Diego, Minneapolis and other areas.

Local services can have very substantial deficits where passenger demand is light. Private bus operators can assist in reducing that deficit by providing less costly service, while serving the same passengers, as the following examples indicate:

In Yolo County, California the entire local bus network is contracted to a private operator. Savings of more than 35 percent are being achieved, and the private operator is supplying the vehicles.

In Carson, California a new bus system has just been contracted to a private operator. This system will operate for \$17 per service hour, about 70 percent less than the cost of the regional operator and 50 percent less than the costs of the municipal public carriers in the Los Angeles area.

Local services are also being contracted in San Diego, the Antelope Valley, California, Minneapolis, Beaver County, Pennsylvania, Sonoma County, California, and in other areas.

Public transit has had relatively little impact upon the large and still expanding suburban employment centers, such as Route 128 (Massachusetts), El Segundo (California), and other areas. The land use patterns of these centers, and the dispersed residential locations of employees render conventional transit approaches impotent. Yet commuting traffic has made access to these locations at least as difficult as is automobile access to downtown areas. To address this situation, companies and employer associations have established bus services for their employees, with planning assistance from public agencies. In El Segundo the Hughes Aircraft Company has contracted with a private bus operator to supply a comprehensive bus transportation system for its employees. This service is a model for other suburban centers.

In summary, private bus operators can assist public transit authorities by providing cost-efficient and market-oriented service under contract. The market of potential suppliers is large. Private bus operators are currently providing commuter express and local services. They are also serving suburban employment centers. The resourcefulness of these operators can be marshalled to public benefit through contracting.

III. CREATIVE FINANCING MECHANISMS Gary L. Brosch, Rice Center

A. Non-Federal Funding Alternatives

The panel discussion focused on the potential of public-private partnerships as an alternative to federal funding. The general consensus was that the future for partnerships is very promising, although they should not be expected to completely replace more traditional revenue sources. Examples of partnerships were presented by panel members throughout the workshop discussion.

Panel members viewed the definition of "public-private partnerships" from slightly different perspectives. Heidi Zukoski of the Rice Center viewed partnerships as negotiated agreements concerning special benefits to private businesses and corporations, with the value of the benefits varying by the type and value of a particular facility or service and by the characteristics of the site. From an absolute dollar standpoint, the most lucrative partnerships tend to involve rapid rail systems. However, from a percentage standpoint, even cities which operate bus systems may benefit from partnerships.

Erskine Walther of the North Carolina A & T State University suggested that partnerships fall