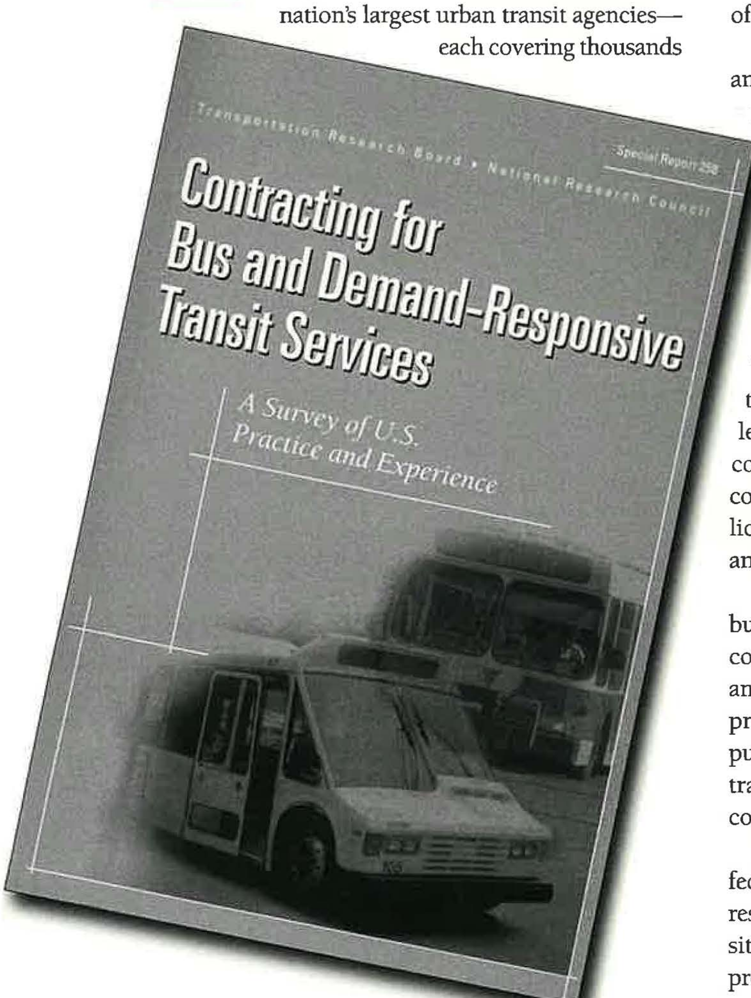
NEW TRB SPECIAL REPORT

Transit Service Contracting in the United States

Survey Reveals Current Practice and Experience

THOMAS R. MENZIES, JR., AND DANIEL BOYLE

Each year more than 500 state, regional, and local government agencies receive aid from the Federal Transit Administration (FTA) for public transit. These include the nation's largest urban transit agencies—each covering thousands of square kilometers, operating thousands of vehicles, and serving hundreds of thousands of riders per week—as well as some of the smallest transit systems, mostly in rural areas, each operating a handful of vehicles.



Special Report 258: Contracting for Bus and Demand-Responsive Transit Services: A Survey of U.S. Practice and Experience is available from TRB (see Publications Order Form in this issue).

Most of these agencies provide fixed-route bus and demand-responsive transit services[1]; some also provide other services, such as commuter and rapid rail. With this assortment of system types, transit agencies deliver services to the public in a variety of ways—some use their own vehicles and personnel, but others use outside contractors for some or all of their services.

In the 1998 Transportation Equity Act for the 21st Century, the U.S. Congress called on the Transportation Research Board (TRB) to study contracting by recipients of federal transit grants, to learn more about the extent and effectiveness of contracting for the delivery of transit service. TRB convened a 12-member committee of experts in public transportation management, labor, economics, and public policy (see sidebar on page 26).

The committee decided to focus on fixed-route bus and demand-responsive transit services, which constitute the majority of the contracts. To enlarge and enrich the source of information on contracting practice and experience, the committee surveyed public transit agencies across the country about contracting programs, reasons for contracting or not contracting, and the results of contracting.

More than 250 transit systems—about half of all federal-aid recipients—responded to the survey. The responses revealed the extent and methods of transit service contracting in the United States and also provided insights into the effects of contracting on service quality and costs and into ways to improve contracting programs. The survey results, summa-

[1] For example, paratransit services, as required under the Americans with Disabilities Act, and dial-a-ride services.

Committee for a Study of Contracting Out Transit Services

Gorman Gilbert, *Chair,* Oklahoma State University, Stillwater

J. Barry Barker, Transit Authority of River City, Louisville, Kentucky

Santo A. Grande, Delmarva Community Services, Inc., Cambridge, Maryland

Clarence W. Marsella, Jr., Regional Transportation District, Denver, Colorado

James J. McLary, Southeast Transit Management, Inc., Alexandria, Virginia

Charles L. Pettus, Sr., Amalgamated Transit Union, Baltimore, Maryland

Patrisha Piras, Pat Piras Consulting, San Lorenzo, California

Elliott D. Sclar, Columbia University, New York

Roger Tauss, Transport Workers Union of America, Washington, D.C.

Brian D. Taylor, University of California, Los Angeles

Roger F. Teal, TWJ Consulting, Wilmette, Illinois

Nigel H. M. Wilson, Massachusetts Institute of Technology, Cambridge

rized here, are analyzed in TRB's *Special Report 258: Contracting for Bus and Demand-Responsive Transit Services,* published in October.

Extent of Contracting

The survey findings reveal that transit contracting is neither rare nor monolithic. Hundreds of transit systems—of all sizes and types—contract for some transit services; many have done so for years. About one-third of all federal-aid recipients contract for more than 25 percent of their services (measured in vehicle-hours), and about one-quarter contract for a smaller share. The remaining 40 percent do not currently contract, yet about one in three of these recently has (see Figure 1).

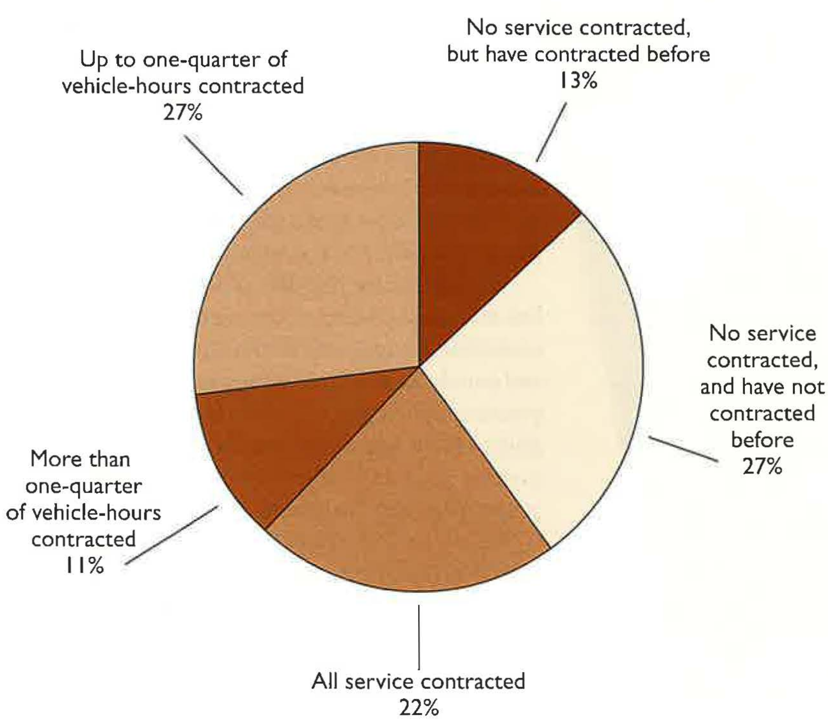


FIGURE 1 Estimated share of transit systems receiving federal aid that are currently contracting for fixed-route bus and demand-responsive services.

In general, larger systems operating 50 or more vehicles are more likely than smaller systems to contract for some transit services. The small systems that do contract, however, are more likely to contract for all services.

Many small transit systems are run by city and county agencies that do not specialize in transit. These agencies are twice as likely as regional transit agencies to contract for all transit services. A corollary is that regional transit agencies are more likely than city and county agencies to have some contract services but seldom contract for most of their services.

About half of small systems and two-thirds of larger systems contract for all their demand-responsive services. By comparison, one in three smaller systems contracts for all fixed-route bus services, but only one in six larger systems does.

Overall, contracting is much more common for demand-responsive than for fixed-route bus services. About 60 percent of the transit systems that provide demand-responsive service have 25 percent or more of vehicle-hours under contract, and more than half contract for all. By comparison, only about 30 percent of the systems that provide fixed-route bus service contract for 25 percent or more of the service, and about 25 percent contract for all. All together, about two-thirds of demand-responsive service is provided through contractors, compared with only 6 percent of fixed-route bus service.

Reasons for Contracting

That a large number of systems contract for a small proportion of services suggests that many are filling service niches or seeking a quick way to add or expand services. The findings indicate that many small systems run by city and county agencies that do not specialize in transit may contract for pragmatic reasons—for example, to obtain specialized expertise.

To gain insight into the rationale for contracting, the survey asked general managers to explain why they contract for service or why they do not. General managers of systems that contract provided several reasons—predominantly, to start new services, reduce operating costs, and improve service cost-efficiency. Relatively few cited state and federal laws and policies as a main or important reason for contracting. Those who did not contract wanted to maintain control over operations, anticipated that cost savings would be low, and saw little reason for change.

Nearly 80 percent of the general managers of transit systems that contract reported they would contract again; about 15 percent said they would not, and 5 percent were uncertain. More than 70 percent of the general managers of systems that did not contract reported no interest in contracting to replace or supplement in-house service; 25 percent said they were interested; and 5 percent were uncertain.

Some general managers who indicated no desire to change might have been defending or rationalizing their approaches. Yet the findings also suggest some degree of satisfaction with current practice. It is plausible that the systems best suited to contracting are already engaged in contracting, while those with less favorable circumstances are not. From another perspective, the results also reveal that a sizable minority of general managers—one in seven who are now contracting and one in four who are not—is interested in changing the approach to delivering services.

Structuring and Obtaining Contracts

Transit systems were asked to provide details about their two largest fixed-route bus and two largest demand-responsive contracts: the length of each contract, the basis of payment, the use of performance incentives and penalties, and other terms and provisions. In addition, respondents were asked about how the contract was awarded and the degree of competition, including the number of bidders and the frequency of contractor changes.

Most transit service contracts are highly prescriptive and detailed, not only defining the kinds of services to be offered, but also prescribing how to provide the services; how quantity and quality are to be measured and monitored; and who will provide the vehicles, facilities, maintenance, and support services. Most transit service contracts also include provisions that prompt the contractor to control costs and pay attention to service quality. Such provisions attempt to convey the multifaceted and sometimes intangible attributes of transit service, such as customer care.

Contractors usually are compensated according to a specified rate—such as a charge per revenue-hour—for the amount of service provided; relatively few are compensated directly on the basis of costs incurred in supplying the service. This shifts cost-containment responsibilities to the contractor.

In addition, contract terms often are designed to foster competition. The most common contract lasts 3 years with two 1-year options. This interval apparently is long enough to avoid the repeated transaction costs of rebidding, but short enough to ensure that incumbents do not become complacent and that competitor interest is sustained.


PHOTO: LARRY LEVINE

Contractors often provide demand-responsive services—such as paratransit and dial-a-ride—for elderly and disabled.

Most contracting agencies provide the vehicles and facilities, especially for fixed-route bus contracts. This too may foster competition by reducing contractors' capital risks and by allowing the agency to retake and rebid the service if the winning contractor fails to perform as required.

The survey indicates that most transit systems obtain service contracts through competitive bidding. Most contracts—especially the largest and those for bus services—attract multiple bidders. Larger contracts also involve changes in contractors more often than do smaller contracts. In general, however, the numbers of contract bidders have been stable in recent years, and many contracts continue to change hands even after several bidding cycles, suggesting that incumbent contractors regularly face competition.

Service Cost and Quality

Most of the general managers of systems that are now contracting reported that contracting programs are meeting expectations. More than half stated that expectations have been met fully, and another 38 percent reported that expectations have been met in part.

Almost all of the general managers of systems now contracting reported cost savings, for small and large agencies alike; most cited reductions in operating costs. Small agencies also reported benefits when contractors assumed supervisory and administrative responsibilities.

But contracting also has negative effects—general managers of systems that now contract or that had contracted pointed to the loss of operational control, shortcomings in service quality, and problems with customer service. More than half of the general managers who reported that expectations were partly met identified service quality as an important problem. General managers from systems that no longer contract also cited problems with service quality.

General Managers' Advice

General managers from transit agencies that are now contracting are satisfied with the cost savings but less satisfied with the quality of service. Yet the transit systems contracting today have found ways of achieving acceptable levels of cost savings and service quality. Many have advice for agencies that are considering contracting; for example,

- Anticipate the advantages and disadvantages, and set realistic expectations.
- Establish a competitive procurement process that is not based solely on cost, that invites high-quality proposals, and that screens out unrealistic proposals and unqualified contractors.
- Prepare an internal analysis of the cost of service contracting as a baseline for evaluating bids.
- Spell out all contractor responsibilities clearly, monitor performance closely, and communicate with the contractor frequently and openly.

Additional Insights

In designing the survey, the committee balanced the desire for additional data against the need to obtain a sufficient number of responses for a valid and timely analysis. Some relevant data therefore were sacrificed, such as the overall benefits and costs associated with contracting and the satisfaction of general managers with in-house services. This information would have provided a context for assessing the findings on the cost-effectiveness of contracting.

Similarly, more information on the influence of policy making and the political environment on the decision to contract would have been beneficial. Although the general managers offered a perspective on these influences, the experiences of committee members suggest that political considerations—especially at the local level—can be important in decisions about contracting. Follow-on research should supplement the information from the general managers survey with information from transit policy makers, to understand the overall effect of political considerations on contracting decisions.

The results of the survey nevertheless provide much new information for assessing transit service contracting. Collectively the results demonstrate that contracting is dynamic—at any given time, some agencies are contracting for some or all their services and others are about to begin or to forgo contracting; still others are not contracting at all. Transit agency needs and circumstances may change in ways that affect the comparative advantages of contracting and providing direct service.

Reports from general managers suggest that contracting can entail a trade-off between cost savings and service quality. An agency's intent to contain costs through contracting may be tempered by concerns about ensuring service quality.

As transit agencies exert more control over service quality by imposing more stringent performance requirements in contracts, contractor costs may rise. At the same time, labor unions may agree to changes in collective bargaining agreements that can make direct service more cost-competitive with contract service.

Although decisions to contract are sometimes portrayed as politically or ideologically motivated, the committee believes that practical considerations and experiences are important in the decision to start, stop, or continue contracting.

Thomas R. Menzies, Jr., is Senior Program Officer, TRB, and Daniel Boyle is President, Dan Boyle and Associates.