Contracting For Public Transit Services: Evaluating the Tradeoffs

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by

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Contracting for Public Transit Services: An Introduction

When considering public transit, travelers typically judge whether it serves desired destinations in a timely manner and at a reasonable cost – often in comparison to traveling by private vehicle. How public transit agencies choose to operate their services – their networks, service frequency, and fare structures – to compete with private vehicles and provide mobility for those without them is the subject of this synthesis. Specifically, we examine the "make" or "buy" decision in public transit: Should government agencies operate (make) transit service directly, or does it save money to contract with private firms (buy) to operate transit service? The latter option is often called "contracting out" or, less accurately, "privatization."

Whether to make or buy transit service has fueled highly charged political debates that frequently cleave along partisan lines. Liberals often favor direct public provision of government services, and fear that contracting with private firms for service usually hurts labor. Conservatives tend to favor competitive procurement of goods and services, and assert that contracting for transit service is almost always more efficient than direct government provision. However, the issues at stake are far more subtle and complex than these competing perspectives, which are often offered in black and white at public meetings and depicted simplistically by the media.

In this synthesis we aim to bring both nuance and rigor to bear on what can be noisy ideological debates over the costs and benefits of contracting out for transit service. It summarizes a series of recent studies conducted by researchers at the University of California.[1] Our focus is on bus transit, which carries more passengers than any other transit mode (subway, trolley, van, etc.), operates on fixed routes and schedules and in mixed traffic on local streets and freeways.[2]

In the United States, the term "contracting out" is generally used when a public transit agency procures the services of a private firm through a competitive bid process. The contracted service may be for a portion of the system, such as a bus route, or systemwide. The transit agency typically maintains ownership of the service and authority over setting policies, such as fares and schedules. This system contrasts with full privatization efforts, such as those in the United Kingdom, where private firms own and operate public transit service (Iseki, 2004, 3-8). Private contracting also is used for transit maintenance and transportation infrastructure provision (mainly road and rail construction and street maintenance). Similar to transit service contracting, private

infrastructure provision has generated controversy and debate over perceived benefits and challenges.

Parts 1 and 2 of this synthesis present background on public transit provision over time, with a focus on today's context. Part 3 analyzes and interprets key findings from a series of University of California studies of transit contracting. Part 4 considers the reasons contracting for transit operations has been chosen in practice as well as its effects on the traveling public, transit operators, and transit workers. Part 5 offers general guidelines for situations in which contracting has proven most promising and when it is less useful. Finally, Part 6 concludes with a recommended action plan for the State of California.

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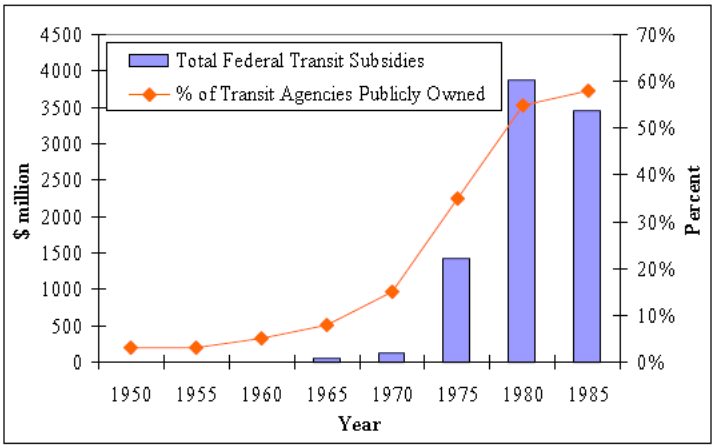
Part 1:
Transit History in Brief:
An Evolving Tale of Public and Private Services

The private provision of transit services in the United States has a far longer legacy than many might imagine. With but a handful of exceptions, private for-profit companies provided transit service from the mid-19th Century to the mid-20th, initially with horses and cable cars, and later with streetcars, subways, and buses. Rapid growth in automobile use, especially after the First World War, combined to both lure disproportionate shares of shopping and recreational trips away from public transit and to congest the streets on which streetcars and buses operated. The public's increasing appetite for automobile travel was a large reason for major declines in transit patronage and associated fare revenues. Private companies began cutting service, delaying track and vehicle maintenance, and in many places ceasing operations altogether. In response, local governments in many cities stepped in to fill the void by taking over bankrupt, and often decrepit, transit systems. In some cases, in California as elsewhere?, cities and counties operated service through their transportation divisions, and in others, regional transit agencies were established. While local government leaders in older, larger cities had long recognized the importance of public transit service to metropolitan life, it wasn't until the 1960s that the federal government began to help subsidize public transit (Figure 1) (Iseki, 2004, 11-25).

Figure 1:
Trends in Contracting Transit Services and Federal Funding



(*Source*: Iseki, 2004, 25)

From modest beginnings in the 1960s, federal subsidy of local transit systems (mostly by underwriting capital expenditures, but increasingly to support operations as well) mushroomed in the 1970s and 1980s. While the extent and frequency of public transit services increased during this period, transit service costs grew even faster, outpacing the then high rates of inflation. Concern with rapidly increasing subsidy obligations led the Reagan Administration and some members of Congress to call for public transit authorities to put more services out to bid for private companies to run in an effort to save money. The rationale was that private entities could offer services at a far lower cost because 1) competition would be generated among prospective bidders, and 2) the high costs of unionized public-sector labor could be reduced by both paying lower wage and benefit packages and by easing work-rule restrictions. In response, many public transit systems did turn to contracting out all or at least part of their services to private companies. In California, 68 percent of the 65 agencies included in the National Transit Database[3] contract some fixed-route service; total expenditures for this contracted service were $227 million in 2002 (Iseki et al., 2006, 1). Nationally, over one-third of all NTD-reporting agencies in 2001 contacted for some services; total expenditures on these contract services were approximately $1.4 billion (Iseki, 2004, 45).

Part 2:
What Motivates Transit Service Contracting Today?

We now turn to the issue of transit service provision today. First, we explore the ways that service has been contracted out, as well as some motivations for doing so. Then we examine the consistencies and contradictions between these stated motivations and the research results from several University of California studies.

Public transit operators contract for service in a myriad of ways. Some contract for all of their service from private companies, while others only contract out a portion of service. Still others don't contract for service at all. As a result, private contract service provision is not simply an "either/or" option. What explains why public transit systems contract for all, some, or none of their service? Iseki et al (2006) found that transit agency size and age frequently affects the amount of service contracted out. They found that new, smaller agencies covering just a city or part of a county are more likely to contract out all services, while larger, older agencies are more likely to contact out only a portion of service. This is because: 1) older agencies often have long histories of public provision of services by unionized public employees, and 2) political battles would likely ensue if such systems were to move toward contracting with private companies for service.

Private contract service provision is not an "either/or" option. Some public transit systems contract for all of their service from private companies, others for only a portion, and still others not at all. What explains these different decisions? Iseki et al. (2006) found that transit agency size and age frequently affect the amount of service contracted out. New, smaller agencies covering just a city or part of a county are more likely to contract out all services; larger, older agencies only a portion. The older agencies often have long histories of public provision of services by unionized public employees, and political battles would likely ensue if such systems were to move toward contracting with private companies for service.

From these general contracting patterns some common perceptions of contracting's costs and benefits have gradually emerged. Most common is a focus on costs: "The primary goals of contracting out public transit are to reduce operating costs and to improve efficiency" (Kim, 2005, 178). Proponents of contracting tout that it has three principal cost-saving effects:

- *It takes advantage of labor cost differences* between the public and private sectors in cases where the hourly rate of private employees may be less than that of a public agency's unionized labor. In the world of transit, labor costs are typically 70 percent of total costs; a reduction in these costs can result in significant savings (Iseki, 2004).
- *It generates competition* between private bidders for services and engenders the "threat of competition" to public employee unions, who may be more willing to accept changes to driver compensation packages if contracting services are under consideration (Kim, 2005, 14-15, 84-85; Iseki, 2004; TRB, 2001). Competition also occurs when a regional authority requests its public agency to partake in a competitive bid process against private firms to operate services.
- *Contracting out less-efficient services increases transit agency efficiencies.* For example, a newly established long-distance suburb-to-downtown bus line typically operates during the morning and evening for commuters traveling to work, It often has few midday riders. In this case, it is often suggested that the service should be contracted out to a private firm that could hire drivers to work "split shifts" to cover the morning and evening commutes, with no overtime compensation— a scheduling arrangement that may be prohibited by a public agency's union contract. (A split shift driver would work four hours in the morning and then four hours in the late afternoon without overtime compensation, rather than a "straight shift" of eight consecutive hours.)

There are two other advantages that proponents of contracting commonly tout, if somewhat less prominently:

- *Additional flexibility in how services are provided*, particularly when a transit agency would like to test out a new service for a limited time to determine its viability before hiring new public employees for it (Iseki et al., 2006).
- *When new services need to be established quickly,* on the assumption that private firms can mobilize faster than a public agency to implement them (Iseki et al., 2006).

Part 3:
Understanding the Goals of and Motivations for Contracting

Has contracting for fixed-route bus service delivered on promised cost savings and increased operational efficiencies? This section reports on some surprising discoveries about such service provision.

Research Methods and Data

The research this report covers endeavored to employ rigorous social science techniques to analyze both quantitative and qualitative data, including frequency distributions (to analyze the extent of contracting out and other transit agency/service characteristics) and multiple regression analyses (to assess the relative relationship and significance of key variables). One study used a case study approach to examine a range of public and private transit operators, and the effects of contracting out on labor compensation among other issues (Kim, 2005). In another study, the investigators interviewed management-level representatives at 13 transit agencies in California to evaluate their service provision decisions and strategies (Iseki et al., 2006). The quantitative data were largely culled from the National Transit Database, which provides extensive annual information on transit agencies and services and is maintained by the Federal Transit Administration, which is part of the United States Department of Transportation. Data on unionization rates, political/institutional and economic/financial factors, and geographic areas were gathered from sources such as the federal Bureaus of Census and Labor Statistics and the American Chamber of Commerce Research Association.

Effects of Contracting Out on Transit Service Provision

First we consider the impact of contracting out with respect to claims made about its potential to improve service efficiencies, then examine the impact of such provision on the compensation levels of workers who provide the service.

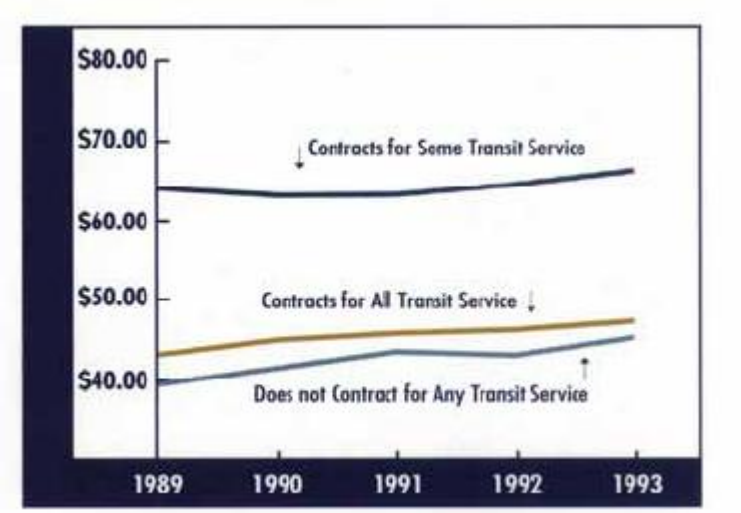
Impacts on Efficiency

The major efficiency gains claimed by vocal privatization supporters are improvements in cost efficiency – measured, for example, by comparing costs per service hour among service providers. While useful, such comparisons don't tell the whole story – vehicle and labor

productivity are important measures as well. Agency characteristics and service levels contribute significantly to? cost savings. In particular, it is important to distinguish among agencies that contract for all, some, or no service, and to be clear on whether total costs or contract-only costs are being compared (Iseki, 2004; McCullough et al., 1997).

McCullough, et al. (1997) determined that vehicle productivity and labor utilization were better measures of the efficiency improvements realized with contracting than common cost-efficiency measures like cost per service hour. "Vehicle productivity" refers to how intensively transit vehicles are patronized and the miles they log traveling from place to place without passengers, known as "deadheading." The miles traveled from the garage to the start of a route, between the end of service on one route to the beginning of service on another, and back to the garage at the end of a shift are all examples of deadheading. Vehicle utilization is also affected by service-area characteristics, such as where buses must traverse long distances in sparsely populated areas or where a transit agency must cover an extensive service area with minimum levels of service. According to McCullough, et.al. (1997, 22), "Often it is the provision of service to difficult areas [and] restrictive work rules that contribute most directly to increased operating costs." Their national study of 142 bus operators providing service between 1989 and 1993, showed that agencies that did ***not*** contract out any service had the ***lowest*** operating costs, followed by agencies that contracted out all service. Curiously, agencies that contracted out a portion of service had the highest cost per revenue hour (Figure 2). To account for the much higher costs at agencies that contracted for some of their service, the authors hypothesized that a self-selection bias played a role: Transit operators with very high costs would be likely to begin contracting for some of their service in an effort to control high costs. Contracting for some service did not cause high costs; rather, high costs motivated contracting.

Figure 2:
Operating Costs by Type of Transit Agency



(*Source:* Figure 1 in McCullough, Taylor and Wachs, *Access*, 1997, 25)

Building on McCullough et al.'s framework and examining data on 400 agencies nationally for 1992-2002, Iseki (2004) found that contracting for transit service, on average, yielded modest cost savings – 7.8% for partial contracting, 5.5% for full contracting – more savings than argued by many critics of contracting, but far less than savings of 40 percent or more touted by contracting proponents. In this study, Iseki examined 400 agencies nationally over a nine year period, from 1992 to 2002. Given average vehicle operating costs per hour of $53.06, he found:

- partial contracting savings averaged $4.09 per vehicle hour over directly operated (that is, government-provided? that is, publicly provided?) service (a 7.8% cost reduction)
- full contracting savings averaged a modest $2.89 per vehicle hour over directly operated service (a 5.5% cost reduction).

Employing different methods, Nicosia (2002) found that contracting may lead to a 15 to 19 percent reduction in system operating costs. Nicosia also found that public agencies are more likely to contract in areas with higher public-sector unionization rates, as are larger agencies whose higher average costs are mainly due to higher wage rates. However, Nicosia's analysis did not include several factors thought to have an important effect on transit costs. , such as (1) the number of extra vehicles needed to provide peak commute service (measured as the "peak-to-base ratio"), (2) vehicle utilization efficiency (measured as the "pay-to-platform ratio"), and labor productivity

(measured as paid worker hours to transit service hours) (Iseki, 2004). Nicosia was, however, with the first to account for selection bias; that is, transit agencies with good reason to do so (that is, characterized by a high level of inefficiency) are more likely to pursue contracting, while [government] agencies efficiently delivering service directly are less likely to contract. We cannot conclude that because contracting has worked well for some public transit agencies, it will necessarily work well for most or all agencies.

Nicosia also demonstrated that contracting had lowered transit service quality and service in important respects; in the nearly 320 transit agencies she studied, contracted service providers had 70% more vehicle collisions and 36% more vehicle breakdowns.

Impacts of Potential Efficiencies on Labor

Although much debate and research on transit contracting has centered on questions of efficiency, an underlying issue is how contracting affects transit workers. These workers provide day-to-day services to the traveling public, and include bus drivers, schedulers, maintenance crews, service managers, and others out in the field. The main questions this issue generally raises are:

- When services have been contracted out, how are private workers compensated in comparison to public unionized workers?
- If contracting has resulted in savings, have these been generated primarily through reductions in private-sector wages and benefits packages?

To address these questions, Kim (2005) undertook the first comprehensive study of the influence of service contracting on transit workers' wage and benefit packages. Labor utilization and cost efficiency also were considered by Kim in her case studies of twelve U.S. transit operators during the period of 1995 to 2001.

Worker Compensation

With respect to how labor is compensated, Kim states,

> "Overall, private contractors were paid 52% less [than comparable public employees] in driver compensation, while their hourly operating costs were 43% less. In sum, it appears that cost savings from contracting were achieved at the expense of labor, but not necessarily with an increase in genuine productivity" (Kim, 2005, 2).

Worker Compensation

Kim found that private contractors were paid 52% less than comparable public employees, while their hourly operating costs were 43% less. She concluded that, apparently, "cost savings from contracting were achieved at the expense of labor, but not necessarily with an increase in genuine productivity" (Kim, 2005, 2).

Kim found that for 2001, drivers working for private bus operators were paid between $10 and $11 per hour, or $6 to $8 less per hour than drivers at public agencies: equivalent to $10,000 to $12,000 annual earnings less per full-time worker. Private-sector drivers also received approximately $12,000 less in average annual benefit packages. With respect to paid absences, such as holidays and vacations, private-sector drivers received compensation for only 15 days annually, versus 52 for public-agency drivers. Overall, private drivers' hourly rates are 38% lower, annual earnings 34% lower, and benefits 58% less.

Transit Operator Productivity and Practices

Kim also evaluated transit operator productivity and practices; in particular, she analyzed the extent to which private agencies? used part-time drivers and whether they incurred additional expenses resulting from contracting, such as contract monitoring and compliance.

Kim found that the private-sector transit providers in the study incurred higher costs on several important items —overtime compensation, insurance fees, and driver training programs. Annually, the typical private-sector driver worked 100 to 200 hours more than public-agency drivers, often for less total compensation. Private agencies also incurred higher costs for insurance (such as worker's compensation and liability) and driver training programs because they tended to have higher driver turnover rates and poorer safety records.

Another long debated transit contracting question is whether private operators have more flexible work rules and employ more part time drivers, for example, to cover additional service during peak times or to eliminate the "split shift." Surprisingly, Kim found that part-time drivers constituted only 2 percent of the private drivers, compared to 11 percent in the public sector.[4] This finding "is the opposite of transit contracting advocates' belief that private operators can be more flexible due to fewer restrictions on their use of part-time employees" (Kim, 2005, 114-115).

In another result that differs from conventional wisdom, four out of every? five private contractors examined actually had higher costs than their public counterparts due to work rules –.[5] Private contract operators' higher expenditure is due mainly to overtime compensation and non-

operating paid work time (for example, stand-by times and training time for new drivers). "[T]he critical implication [is] that private bus operators do not enjoy more flexible work rules for drivers, and they are not inherently more efficient" (Kim, 2005, 114).

Further, the private contractors were less efficient with respect to non-labor-related expenses, such as vehicles, fuel, maintenance, insurance fees, administrative staff, overtime, and training. As a result, the majority of private operators had higher non-labor operating costs than did public agencies. In contrast to the claims of privatization proponents who have derided public transit agencies as inefficient in their use of labor and capital, private sector cost advantages were due primarily to lower wage and benefit rates, and better utilization of workers and vehicles. As a result, some public agencies in the study made better use of labor and equipment and than private transit operators did —that is, were as efficient as private operators even when saddled with substantially more expensive compensation packages.

Policy Implication: These studies on efficiency, labor, and work practices collectively suggest that contracting out transit service is not always as efficient as privatization supporters have purported it to be. In fact, some public agencies are more efficient in their use of workers and vehicles than their private counterparts. Cost savings associated with contracting appear to accrue primarily from lower driver salaries and benefits, at the expense of transit service quality.

Part 4:
Practical Reasons for Contracting, and Its Effects

Why do some transit agencies contract out, while others do not? The research to date suggests that transit agencies have tailored contracting out to meet their specific needs and goals. These include:

1) Accommodating agency size and resources: Transit agency size strongly influences the likelihood of contracting out service. Smaller agencies are more likely to fully contract out services because they do not have in-house expertise readily available, they want to avoid negotiations with labor unions, or both. Larger operators tend to contract out only a small portion of service (roughly 8%) (Iseki, 2004).

2) Gaining benefits from lower private-sector wages: Agencies in areas where there is a wage gap between public and private sectors have sought to take advantage of these savings by contracting out (Iseki, 2004; Nicosia, 2002; Richmond, 2001; TRB, 2001).

3) Improving vehicle utilization: Contracting has been used for operating special peak/commuter services as well as demonstration and temporary services, when vehicles and publicly employed drivers are already fully committed to providing service. Contracting also has also often been introduced on inefficient lines, such as long-haul commuter lines or low-ridership lines where small vehicles may be appropriate (Iseki et al., 2006; TRB, 2001).

4) Increasing labor productivity through adjustments to work rules: Some public operators hope to gain efficiencies in work rules and related compensation expenses (such as reduction in overtime compensation for split shifts, removal of restrictions on part-time workers, time to reach the highest wage rate, and the use of smaller vehicles operated by drivers who are not qualified to drive regular buses) (Iseki et al., 2006). While not all private operators have more-flexible work rules (Kim, 2005?), particularly related to part-time drivers, and they may pay more in overtime, selective use of service contracting may increase overall (combined public and private) vehicle and labor utilization.

Given these motivations to contract for transit service, the studies summarized here paint a mixed picture of the outcomes:

- Cost Efficiency: Contracting has not been as cost-efficient as privatization supporters have claimed; however, the "threat of competition" may increase in-house efficiency in public-sector transit services ? (Kim, 2005).
- Wage/compensation packages: Private transit labor consistently earns lower wages and earns fewer benefits in comparison to comparable public-sector employees (Kim, 2005).
- Utilization of Vehicles: Contracting may improve overall vehicle utilization rates, particularly for large transit agencies that partially contract service. However, transit agencies also can make operational changes such as interlining, routing adjustments, or relocation of vehicle maintenance and storage facilities to reduce situations in which buses are operating without passengers ("non-revenue" service). Changes to work rules also can increase labor productivity, such as allowing part-time drivers, reducing overtime compensation for split shifts, and increasing the length of employment time for drivers to reach the highest wage rate (McCullough et al., 1997; Iseki, 2004).
- Labor quality and productivity: An axiom of labor economics is that lower levels of compensation for a given occupation are associated with higher levels of employee turnover. The studies of transit service contracting reviewed here bear this out. This can lead to higher training and insurance costs (Kim, 2005).
- Service quality: Most of the previous research on transit contracting has focused on costs, not service quality. The evidence from the research summarized here suggests that service quality may be lower among low-cost contract operators (as measured in terms of crashes and on-road service calls) (Kim, 2005; Nicosia, 2002).

Policy Implication: Transit agency discussions? decisions? on whether or how much to privatize their service require a balancing act ?/ a trade-off ? among competing concerns: cost efficiency and productivity, driver compensation, and the quality of service. The effects of contracting vary depending on how well private drivers are compensated, which can affect quality of service. As a result, some transit providers specify in their contracts minimum compensation levels to attract and retain qualified drivers and mechanics. Not all contracting agencies set such standards, but most report that compensation packages are considered in evaluating bids from private firms to operate service (Iseki et al., 2006).

Part 5:
Guidelines for Transit Service Contracting

Given the research reported on here, we offer some guidelines for public officials considering transit service contracting.

When Contracting Works Well

Transit service contracting has proven most successful in situations of two types: when (1) publicly operated service is relatively costly or (2) new or different types of transit services are under consideration.

1. Contracting is a useful tool for improving inefficient services, such as lines that may be subject to elimination due to high operating costs, low ridership, or both (Iseki et al., 2006). Even introducing the possibility of contracting may induce increased efficiency among unionized public employees who are direct providers of transit service and are interested in discouraging expansion of contract service.

2. Implementing new special services, such as peak-period commuter bus lines. New service has proven easier to contract out because it typically does not involve displacing existing unionized workers (Iseki et al., 2006).

3. Testing new lines, which provides transit agencies with the flexibility to assess service and make adjustments before committing to additional in-house labor to operate the service (Iseki et al., 2006).

4. Launching new lines, expanded service, or an entire agency when a public agency does not have in-house transit resources or expertise. Transit service contracting can be particularly useful for new or smaller agencies. In the case of contracting all service, contracting may support efforts to minimize the number of new public staff to be added, avoid unionization of public employees, or engage in ongoing negotiations with unions.

When Contracting May Not Work

Contracting for transit services has proven less useful in the following situations:

1. When agencies contract out to take advantage of the wage gap between private and public sectors by permitting substantially lower wages and benefits for private-sector drivers This in turn may diminish driver and service quality and increase driver turnover, insurance rates, and expenses for training drivers (Kim, 2005; Nicosia, 2002).

2. When agencies overlook longer-term costs of contracting in search of short-term cost reductions. For example, soliciting and evaluating bids, negotiating contracts, monitoring contracts, and enforcing penalties for non-compliance are all examples of "transactions costs" associated with contracting. According to Sclar (2000), government agencies often overlook a critical step/consideration: estimating the full costs that contracting entails. Such costs must be fully considered to accurately estimate the savings (or costs) of contracting.

3. When well-utilized, regular in-house bus service is transferred to the private sector, particularly if that service is already being efficiently delivered by public-sector employees. Labor groups [= Unions?] will likely oppose such conversion because these services are traditionally their members' core employment and livelihood. In this scenario, it may be more advantageous for an agency to negotiate changes to work rules in order to maximize vehicle and driver utilization and reduce costs (Iseki et al., 2006).

4. When there are an inadequate number of potential private contractors to bid on service contracts, particularly if part of the purpose of contracting in these situations is to generate competition among bidders.

Other Considerations

If a public transit agency, after evaluating these scenarios, elects to contract some or all service, we recommend that the agency consider taking the following steps:

- ✓ providing guidelines or setting minimum compensation levels related to hourly rates and/or fringe benefits for private-sector employees (Kim, 2005; Iseki et al., 2006).

- ✓ examining private contractors' part-time employee policies, particularly to see whether these positions are encouraged and how their compensation packages are structured.

- ✓ developing measures to evaluate contractor performance and service quality, and making arrangements to regularly monitor these measures (TRB, 2001).

- ✓ cultivating a competitive bidding environment to reduce possibility of one contractor monopolizing service provision (McCullough et al., 1997).

- ✓ maintaining open and amicable communication with the contractor to facilitate service improvements if needed (TRB, 2001).

If a public transit agency elects not to contract out service, the following strategies may help improve service provision whether implemented individually or as a comprehensive package:

- ✓ Seek changes to labor agreements related to work rules and compensation that would allow agency managers more flexibility, such as split shifts without excessive overtime penalties, interlining, part-time labor, other overtime compensation reductions, and changes in salary scales (including the addition of extra pay grades to reach senior level) (Iseki et al., 2006).

- ✓ Adjust vehicle routing and scheduling to reduce the amount of time vehicles are in non-revenue service, and use more-efficient vehicles such as smaller buses and vans for services whose ridership levels do not require the standard larger bus.

- ✓ Relocate vehicle storage and maintenance facilities and layover locations to bring facilities closer to the lines of actual service if feasible and not too cost-prohibitive.

Part 6:
Recommended Course of Action for the State of California

Contracting for transit service is one of many options public agencies have to improve service and cost efficiency; other options, some of which we noted in the preceding section / Part 5, may be more appropriate in certain contexts. So how can the California legislature and state agencies help improve transit service provision while ensuring quality work environments? We recommend the following:

- **Transit planning requires tailoring services based on individual agency characteristics and needs as well as political and equity considerations.**

Statewide legislation or policies *requiring* the contracting out of transit services (as has been done in Colorado and Massachusetts) is *not* recommended. There is simply no evidence to support the assertion that contracting for service will always be more cost- effective. Nor does the research support the conclusion that state agencies or the legislature should promulgate legislation prohibiting or hindering transit agencies from contracting for service, if local conditions warrant such a move.

- **Information on best practices in contracting should be developed and distributed to increase awareness of the advantages, challenges, and obstacles to effective service contracting.**

These materials would include: fact sheets; case studies written in straightforward language featuring best practices of agencies that contract out transit service as well as those that do not; examples of model work-rule agreements and minimum employee compensation policies as well as contracts with private transit contractors; and a contact list of accessible practitioners and others involved in innovative transit service provision. The state could partner with the United States Department of Transportation through the Federal Transit Administration, the Transportation Research Board's National Transit Cooperative Research Program, and/or the American Public Transit Association to host workshops and provide additional examples. Regional transportation planning agencies, county congestion management agencies, and the University of California Transportation Center and its affiliated Institutes of Transportation Studies also may be able to provide information and assistance.

- The state should consider developing a "seed" planning fund program for public transit providers to pursue public processes to investigate transit service provision enhancements.

The program's purpose would be to develop short and long-term transit service strategies and plans. These funds would provide transit providers the extra incentive to conduct additional planning beyond their regularly scheduled planning activities, such as their short-range transit plans (also known as SRTPs). A funded planning effort would identify and examine the full range of service options, including contracting out as well as changes in vehicle utilization (such as routing and scheduling) and work rules. Grant recipients would consist primarily of public transit service providers; however, regional transportation agencies and county congestion management agencies also would be eligible if they were interested in developing guidelines and incentives, and identifying areas of opportunity for service efficiencies and coordination. As part of the planning effort, grant recipients would be expected to develop an implementation plan as well as a monitoring, oversight, and evaluation plan. To encourage broad participation, program funds may be used to cover facilitation costs for discussion sessions among key stakeholders, such as transit agency board members and staff and representatives from the public, labor, and the private/non-profit sectors.

The state? As a corollary, the state? should develop an overall monitoring and evaluation plan to assess the short- and long-term impacts of the seed funding program. The purpose of the state evaluation would be to advise the Legislature on transit provision innovation, progress, and issues as well as identify recommended modifications to the program as needed.

- We advocate several avenues of continued research on this important public-policy issue:
    - More in-depth assessment of efficient, high-quality transit providers so as to highlight actions and strategies that have led to such noteworthy service. An effort should be made to include a wide range of providers who operate in urban, suburban, and rural contexts.
    - Analysis of the equity implications of contracting out and other cost efficiency/productivity measures. Who benefits when there are cost savings? Are these savings used to improve operations, provide more service, increase driver compensation, maintain tax/fare levels, or for other purposes? (Iseki, 2004; Kim, 2005)

- Documentation and analysis of labor, transit-user, and private-sector perspectives on transit service provision. Most interview-based research to date has been with transit agencies; few, if any, interviews have been conducted with representatives of labor, the private sector, or transit users. Future research should include these constituencies to provide a more comprehensive range of perspectives.
- Comparative assessment of the relative influence of various service provision strategies on transit efficiency and productivity. Much research tends to focus on the impact of contracting out on cost-efficiency in isolation from other factors (contracting out, part-time labor, changes in compensation packages or work rules, service adjustments, location of vehicle storage and maintenance facilities, etc.). Additional analysis is needed that compares individual strategies or packages of strategies.
- Analysis of capital cost savings or efficiencies, if any. The research to date has largely focused on operating costs and has not undertaken in-depth analyses of whether contracting out may be useful to reduce capital costs.

We hope that these findings and recommendations are useful in practice and serve to stimulate further consideration of transit productivity and service delivery.

Endnotes

[1] These analyses were funded through the University of California's California Policy Research Center, University of California Transportation Center, and the Center for Labor and Employment.

[2] However, it should be noted that much transit contracting has been used to provide on-demand "dial-a-ride" services, often known as "paratransit."

[3] The National Transit Database, or NTD, is a rich source of operating and financial data on all of the U.S. public transit systems that receive some form of direct federal subsidy.

[4] Due to the small sample size of Kim's case studies, these differences are not statistically significant.

[5] Although, again, this finding is not statistically significant, due to the small sample size of this study.

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