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## A PUBLIC PURPOSE FOR PUBLIC TRANSIT

A Response to the EPI Report  
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### EXECUTIVE SUMMARY

This paper examines the competitive contracting issues raised by the Economic Policy Institute (EPI) report, The Emperor's New Clothes: Transit Privatization and Public Policy. The EPI report alleges that competitive contracting, or privatization, of public transit services results in higher costs, lower service levels, and is at odds with the objective of reducing automobile usage through increased reliance on public transit. By contrast, this paper documents the following points:

#### PUBLIC TRANSIT COST INCREASES OUTPACED MEDICAL CARE AND GASOLINE.

US public transit costs per mile increased more than 65 percent over inflation from 1970 to 1986 -- a rate far greater than that of medical care services and gasoline prices. For each new inflation-adjusted dollar public transit received, only 17 cents funded new services; the remaining 83 cents was consumed by costs over inflation. The \$32 billion in public monies used to fund public transit's runaway costs instead could have been used to double transit service levels, to construct 135 new light rail systems or 13 new heavy rail systems, or could have been diverted to reconstruct failing bridges, tunnels, streets, and highways.

*Note:  
Nothing written  
here is to be con-  
sidered as neces-  
sarily reflecting the  
views of the Reason  
Foundation or as  
an attempt to aid or  
hinder the passage  
of any bill before  
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#### COMPETITIVE CONTRACTING REDUCES THE COSTS OF PUBLIC TRANSIT.

Public transit agencies successfully have used competitive contracting to reduce the costs of public transit service. Savings have been used to reduce transit fares, increase or preserve service levels, and to render increased public transit taxes unnecessary. As a result of

documented savings, the Urban Mass Transportation Administration has supported, but not required, the use of competitive contracting.

#### COMPETITIVE CONTRACTING IS A SOUND PUBLIC MANAGEMENT STRATEGY.

The competitive contracting process is a public management strategy to ensure that goods and services of a defined quality and quantity are produced for the lowest possible cost. Competitive contracting is the familiar "make or buy" analysis applied to public services. If the same quantity and quality of service can be purchased for less, a fixed-term, fixed-price contract is awarded to the lowest responsible and responsive bidder. If the same quality and quantity of service cannot be purchased for less, then service is provided directly by the public agency.

#### COMPETITIVELY CONTRACTED SERVICE IS SAFE AND RELIABLE.

Private transportation providers for years have been safely transporting a large percentage of our most fragile passengers: school children (30 percent of service) and the elderly and disabled (more than 67 percent of the service). Public transit administrators who competitively contract have reported that the quality and safety of contracted service is as good as or better than the previous publicly operated service. Industry statistics indicate that the private bus industry has the best safety record of any surface transportation mode in the United States.

#### A PUBLIC PURPOSE FOR PUBLIC TRANSIT.

The purpose of public transit is to provide mobility and to reduce traffic congestion and air pollution. In the interests of the riders and the taxpayers, transit services must be reliable and safe and produced at the lowest possible cost.

The goals of transit have been compromised by the steep cost escalation and declining productivity of public transit. Competitively contracted transit service is safe and reliable, and the public retains full control. The savings realized can be used to address the problems of mobility, traffic congestion, and air pollution. Because of these benefits, competitive contracting is a superior strategy for achieving the full public purpose of public transit.

## I. INTRODUCTION

This paper examines the competitive contracting issues raised by the Economic Policy Institute report, *The Emperor's New Clothes: Transit Privatization and Public Policy*.<sup>[1]</sup> This paper presents data to counter EPI contentions, and describes the runaway costs and declining productivity of US public transit that propelled competitive contracting of public transit services into the arena of public debate. The paper begins with a definition of competitive contracting.

## II. COMPETITIVE CONTRACTING OF PUBLIC TRANSIT SERVICE

Monopolies are less efficient producers than competitive firms. Monopoly goods and services cost more to produce, so the consumer is charged a higher price. The lower efficiency of monopoly firms also results in a lower output of goods and services. Public monopolies, like private monopolies, produce less, and taxpayers and consumers pay more than necessary for the goods and services produced by public monopolies.

In public transit, reliance on monopoly has been costly. Riders and taxpayers have paid billions more in federal, state, and local taxes and have received far less service than they would have in a competitive environment. Competitive contracting has been introduced to reduce the "monopoly" costs of public transit service. The basis for competitive contracting is that public transit service should be provided at the lowest possible cost consistent with service quality and safety.

Competitive contracting is the application of "make or buy" analysis to public services. "Make or buy" analysis has been used for decades by private and public organizations to ensure that goods and services of a defined quantity and quality are produced for the lowest possible cost. Each good or service made or consumed by the organization is studied to determine if buying the good or component or contracting for the service would be cheaper and of equal or greater quality than that produced within the organization. Public agencies traditionally have purchased many services through competitive contracting including building maintenance, accounting, legal, and computer services, and transportation and delivery services. There are two fundamental principles of competitive contracting:

1. The public agency retains full policy control, determining which services are competitively contracted, establishing standards, administering contracts, and monitoring service performance.
2. The public agency must take steps to foster a competitive market. The agency must ensure wide participation and full disclosure of information, limit contract lengths, and limit the size of contracts so that large and small private companies alike can compete for services.

Applied to public transit, competitive contracting requires that the public transit agency produce service itself when it is less expensive to do so; when service produced by the public transit agency is more expensive, the service is "bought" from public or private contractors. There are two basic steps in the competitive contracting process:

1. The public transit agency seeks competitive proposals to deliver a specific quality and quantity of public transit service for a defined period of time.
2. A contract is awarded to the lowest responsible and responsive private or public proposer who demonstrates an ability to provide the same quality and quantity of public transit service at a cost lower than that of the public agency. The public transit agency

continues to produce the service if the same quality and quantity of service cannot be obtained for less.

Note: If competitive contracting results in higher public costs, then the public transit agency erred in awarding a contract.

In the United States, most public transit services require public subsidy. Competitive contracting does not eliminate the need for subsidy, but the amount of subsidy required is reduced because costs are lower. Competitive contracting lowers public costs in two ways. First, costs are reduced when a contractor provides public transit services for less. Second, costs are reduced when public transit agencies improve their own cost performance in response to the competitive market. This is called the "ripple" effect. Competitive contracting saves money not because the private sector is superior to the public sector; competitive contracting saves money because competition induces lower costs than monopoly.

### III. ANALYSIS OF THE ISSUES

#### A. COST ESCALATION AND THE PURPOSE OF PUBLIC TRANSIT

The EPI report defines the purpose of urban transportation policy: "to increase the extent to which we move people by mass public transit and decrease our dependence on the automobile." EPI omits a crucial element. Many public transit riders depend upon public transit because they have little or no access to automobiles. The transit-dependent include the inner-city poor, the elderly, and the disabled. Therefore, an important component of public transit's mission is to provide service to the transit-dependent as well as to reduce reliance upon automobiles.

EPI cites improved cost control as UMTA's intent in encouraging competitive contracting of public transit. Yet, EPI considers competitive contracting at odds with public transit's purpose.

Without effective cost containment, however, public transit cannot increase ridership; it cannot provide needed mobility for the transit dependent; and it cannot reduce dependence on the automobile.

\* By any measure, public transit has continued to lose market share.

Per capita public transit ridership declined by 15 percent from 1980 to 1987 in the 36 metropolitan areas of more than one million people.[2]

Public transit ridership per capita decreased in 33 of the 36 largest US metropolitan areas from 1980 to 1987 --- ten areas registered losses of more than 30 percent.[3]

Transit's Work-trip market share declined by nearly 30 percent from 1970 to 1980.[4]

\* Public assistance to public transit has increased rapidly.[5]

More than \$100 billion in tax funding has been received by public transit in the last two decades.

Operating subsidies have increased to more than \$6 billion annually (by 1986) --- more than 20 times the 1970 level.

\* Most of the money given to public transit has been consumed by rapidly escalating costs. From 1970 to 1986:[6]

Public transit costs per mile increased 349 percent compared to the inflation increase of 170 percent. Adjusted for inflation, public transit costs increased by 65 percent.

Public transit costs increased at a rate far greater than that of medical care services or gasoline prices.

Each additional \$1.00 in inflation-adjusted revenue produced only \$0.17 in new public transit service. Conversely, public transit required \$5.94 in new revenues to produce each dollar's worth of new service (See Figure 1: USE OF NEW PUBLIC TRANSIT REVENUE)

Public transit costs exceeded the inflation rate by more than \$32 billion --- nearly \$4 billion in 1986 alone.

\* Competitive bus industry costs declined during the same period of time,[7] suggesting that most or all of public transit's cost escalation resulted from its non-competitive market (See Figure 2: NATIONAL COST INCREASES).

Private bus industry costs per mile increased 160 percent compared to the inflation increase of 170 percent. Adjusted for inflation, private bus industry costs declined by four percent.

The 349 percent increase in public transit costs was more than double the 160 percent competitive bus industry increase.

\* Service levels could have been increased by 109 percent[8] if public transit had maintained its cost increases within inflation --- more than eight times the actual service increase. Instead of providing only \$0.17 in new service for each new dollar, public transit would have produced \$1.00 in new service for each new inflation-adjusted dollar.

A 109 percent increase in public transit service would have provided public transit with the resources to reduce reliance on the automobile and to provide additional services to the elderly, the disabled, and the poor. Instead, \$32 billion in new inflation-adjusted operating subsidies were consumed by public transit agencies in higher real costs and without any benefit to the public.

\* Alternatively, additional public transit infrastructure could have been built if public transit had controlled its costs. The \$32 billion that public transit spent in excess of inflation could have funded:[9]

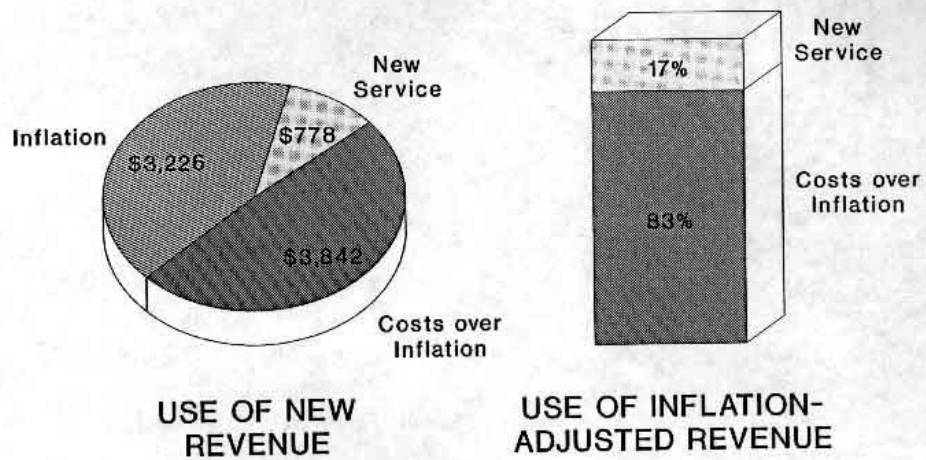
135 new light rail systems equal in cost to Portland's new Banfield light rail line, or

13 new heavy rail systems equal in cost to Atlanta's new MARTA system.

\* Public transit's fundamental cost control problem has not been solved by better management.

Public transit cost escalation occurred despite the introduction of various management strategies to control costs such as part-time labor, management information systems, performance monitoring programs and legally mandated performance audits. Public transit cost control can be achieved through the introduction of competitive incentives.

FIGURE ONE  
**USE OF NEW PUBLIC TRANSIT REVENUE  
1986 vs. 1970**

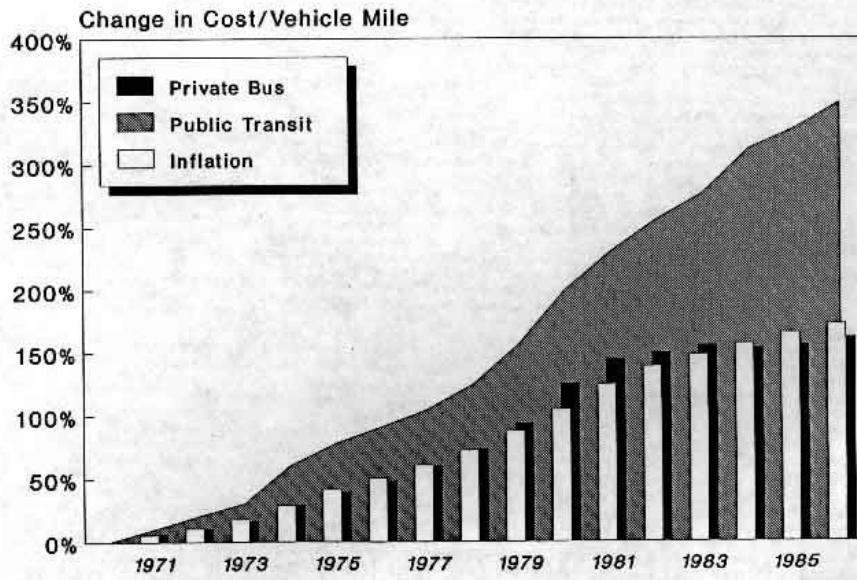


Amounts in Millions

FIGURE TWO

# NATIONAL COST INCREASES

*Private Bus Industry, Public Transit*



Based upon the historical low rate of productivity of public transit operating subsidies --just 17 cents per inflation-adjusted dollar -- and in the continued absence of cost containment, only massive tax increases would halt public transit's continuing decline and increase its market share.

## B. COST SAVINGS

The EPI report suggests that competitive contracting does not result in reduced costs. Only two cases are cited as evidence.

### New Orleans

EPI states that competitive contracting has increased costs at the New Orleans Regional Transit Authority (RTA). RTA itself indicates just the opposite, calculating that cost savings of 53.7 percent [10] had occurred as a result of contracting with Greyhound Lines and its minority subcontractor, Rhodes Transportation. Based on RTA figures, the first year's savings from competitive contracting should approximate \$1.1 million.[11] RTA's general manager has characterized competitive contracting as "a great benefit to RTA" and held that "mutual benefits for the public and private sectors are derived from privatization. It is a win-win situation." [12]

EPI reaches its conclusion that competitive costs were higher by adding \$1.467 million in vehicle leasing costs to the costs of the competitive service--but not to RTA costs. Since vehicles would be required whether operations were public or private, the vehicle leasing costs should have been included in public costs as well. Actually, no vehicle leasing costs were ever incurred, because RTA provided the vehicles for the service from within its existing fleet; consequently, vehicle leasing costs should be excluded from both RTA and competitive costs.

### Sonoma County, California

The EPI report states that competitively contracted service in Sonoma County costs more than publicly operated service. According to EPI, Golden Gate Transit, an adjacent public transit agency, proposed to operate the service for three years at a savings of approximately seven percent.

However, Golden Gate did not submit a three-year proposal, and its cost proposal was not lower. Golden Gate proposed to operate service for one year at a rate of \$2.028 million [13] with no limit on cost increases in subsequent years. Golden Gate did not participate in the public bidding process, and the service proposed by Golden Gate was substantially different from the service Sonoma County had requested. The private contractor's price for the first year of service was \$1.835 million with fixed prices for the second and third years.

Could Golden Gate have provided the service for \$2.028 million? This figure would yield a rate of \$29.98 per hour, only a fraction of Golden Gate's 1987 cost of \$62.07 per hour.[14] The private contractor's 1989 price of \$27.13 per hour is 56 percent below Golden Gate's 1987 cost per hour (excluding overhead). If Golden Gate had been awarded the contract, most of the difference between the contract price of \$29.98 and the actual cost to provide the service would have been borne by the taxpayers.

### Competitive Contracting Saves Money

The EPI report does not consider the hundreds of examples of competitive contracting in public transit. Competitive contracting routinely results in cost savings. For example:



Los Angeles: A recent Price Waterhouse report documents 41 percent savings on local and express public transit routes.[15]

Los Angeles saved 37 percent on the downtown circulator system in 1988-9.[16] Subsequent rebidding of the contract resulted in an additional 39 percent reduction in costs for 1989-90.[17]

St. Louis: According to local public transit officials, newly awarded competitively contracted service will cost "about half ... (what) it would cost the agency to operate the line itself." [18]

Snohomish County saved more than 30 percent on express service.[19]

San Diego: Competitively contracted service is operated for 43 percent less than publicly provided service.[20] These savings are understated, because figures for the competitive service include some bus capital costs and the public costs include no capital costs.

Fairfax County, Virginia saved 39 percent over previous public operation.[21]

Houston saved more than 30 percent on park and ride services procured in 1985.[22] The recent rebidding of the contract resulted in a price reduction with no cost increase through 1991.[23]

Orange County, California saves 29 percent on commuter bus service as compared to Orange County Transit costs and 54 percent compared to a bid by Los Angeles' Southern California Rapid Transit District.[24]

Each of these cases understates the true cost savings, because none of the analyses consider the taxes and license fees paid by private companies and from which public transit agencies are typically exempt.

Evidence supporting competitive contracting is not limited to the United States:

London: London Regional Transport (LRT) competitively contracts more than 25 percent of its bus service, more service than is operated in all but five US metropolitan areas. Because of the lower costs, LRT has announced intentions to double competitive contracting in 1990 and invest savings in service improvements.[25] LRT reports that "the contract system has helped...to control costs and to improve service to its passengers." [26]

#### Competitive Contracting Creates New Resources

EPI suggests that competitive contracting "creates no new resources." To the contrary, the savings from competitive contracting are new resources that have been used to improve public service throughout the nation. For example:

Savings have resulted in lower fares in Fort Wayne, Atlanta and Los Angeles.

Savings have permitted expansion of services in Johnson County (KS), Denver, Snohomish County (WA), and Fort Wayne (IN).

Competitive contracting permitted Fort Wayne to expand service by 60 percent in less than three years, which was accompanied by an increase in ridership of 40 percent.

The magnitude of increase for both figures is unprecedented in the recent history of US public transit. Fort Wayne protected current employees by limiting the use of contract drivers to the employee attrition rate (a common practice in public transit).[27]

In San Diego, the savings from competitive contracts and from reductions in public costs as a result of the competition (when compared to the cost increases of other California cities, 1979-1989) are greater than the cost of the San Diego-San Ysidro light rail line.

The Chicago Transit Authority was able to double its service to the disabled without increasing revenues.[28]

Services described in the Price Waterhouse Los Angeles report had been scheduled for cancellation because of escalating costs. The lower costs of competitive contracts permitted continuation of these services.

Ridership has increased by more than 100 percent in three years after Snohomish County converted to competitive contracting.[29]

Perhaps the most important benefit of competitive contracting is the impact of competition on public costs. This "ripple" effect occurs when public transit agencies control their costs as a result of competitive incentives.

San Diego: San Diego Public Transit Corporation costs declined 10 percent in the competitive environment that developed from 1979 to 1989. The combination of lower agency costs and savings from contracted services produced an inflation-adjusted decrease in costs per mile of 19 percent from 1979 to 1989.[30] In comparison, the nation's 50 largest public transit agencies experienced an inflation-adjusted increase of more than 20 percent from 1979 to 1987.[31]

Norfolk: The use of competitive contracting has resulted in lower internal costs according to a report for the public transit agency.[32]

Competitive Labor Provisions: In response to the competitive market, public transit agencies and their unions have negotiated arrangements to permit the payment of competitive-level compensation to drivers on contract services rather than the above-market compensation typical of public transit. Competitive labor agreements have been made in Los Angeles, Cincinnati, Memphis, San Francisco, St. Louis, San Diego, Salt Lake City, New Jersey and others.

### C. SAFETY AND SERVICE QUALITY

EPI implies that competitive contracting results in reduced service quality and safety.

EPI cites only New Orleans as evidence, where it is claimed that maintenance deteriorated and accident rates increased during the first three months of competitively contracted operation. EPI did not take note of extenuating circumstances. RTA, in its request for proposals, stated it would supply buses no older than five years.[33] The contractor submitted a bid based upon that assumption. To date, more than 75 percent of the RTA buses provided to the contractor have aged beyond their useful life, and the models have been discontinued by the manufacturer. Maintenance problems and breakdowns predictably are far greater for this aged fleet as compared to RTA's fleet with an average age of less than half the expected life of the vehicles. Yet, despite the far greater maintenance burden for the older buses, the contractor has continued to deliver services at the original price. RTA has noted that service and safety performance is improving and that the performance problems

were experienced in "the new (in-house) service implemented during that period as well." [34]

The EPI assumption that drivers paid greater-than-market wages provide safer service of higher quality than other drivers is not supported by any data.

EPI conjectures that lower-paid drivers will have higher absentee records that result in unreliable service (missed trips, etc.). EPI authors offer no evidence whatsoever for their supposition.

Current data do not support EPI's premise. A report by Peat, Marwick and Mitchell indicates that public transit drivers have an average absenteeism rate of 29 days per year, excluding vacations and holidays -- more than three times the national average. [35] Within the last two years both the Southern California Rapid Transit District (Los Angeles) and Alameda-Contra Costa Transit in Oakland, CA have reported that their drivers take an average of more than 30 sick days annually. A private company burdened with a similar absenteeism record would be unable to survive in the competitive market.

#### Quality Service Through Competitive Contracting

The data suggest that neither service quality nor safety is compromised under competitive contracting.

\* The private bus industry has the safest record of any surface transportation mode in the United States. [36]

\* While less than 10 percent of all public transit bus services are provided under competitive contract, more than 67 percent of service for the elderly and disabled (dial-a-ride) is provided through competitive contract. [37] Approximately 30 percent of school transportation is provided under contract. [38] If the private sector did not provide reliable and safe transportation, it would be evident in these highly sensitive and visible services provided for our most fragile citizens.

\* The Price Waterhouse report [39] covering the first year of competitive contracting in Los Angeles has documented improved service quality and safety on the contracted routes. This is significant, since the competitive drivers not only are paid less, but they also have significantly less experience than public transit agency drivers. The city of Los Angeles commented on the experience:

"...ridership trends provide an indication of the overall quality of service. During the first nine months of operation, ridership on Commuter express lines steadily increased by 36 percent. Since the routes and schedules are basically the same as those operated by SCRTD (the previous public operator) and the fares were unchanged, increases in ridership suggest improved service quality." [40]

\* The city of Los Angeles also has reported that competitive contracting of its central city circulator service resulted in "... increased reliability, and reduction of overall trip times." [41]

\* Fort Wayne reports that service quality and safety for competitively contracted services were comparable to the performance of internal staff. [42] The market-rate compensation for contract drivers was much less than that paid to agency drivers.

Public transit agencies have reported better control over competitively contracted services that permits improved service quality.

\* Snohomish County converted to competitive contracting to "control operating costs, improve local control and maintain service and equipment." [43]

\* The City of Los Angeles reported that "Perhaps the most important factor contributing to this improvement in service quality is that the control of operation now rests with the City. Mini-ride (the previous publicly provided service) was one of over 200 lines operated by SCRTD. As such, Mini-ride could not receive the kind of attention from SCRTD that the City felt was required." [44]

Perhaps the best testimony to the quality of competitive contracting is the tendency for transit agencies to continue the practice. A report on contracting practices concluded the following after conducting interviews with 11 public transit agencies that had lengthy experience in competitive contracting:

"Unlike most public policy initiatives, competitive (contracting) is routinely reconsidered every three to five years through the procurement process. It would be simple enough for public authorities to abandon competitive (contracting) of public transit service as contracts expire. The ultimate indicator of whether competitive (contracting) is a public policy success is the degree to which authorities choosing to competitively contract continue the practice. No US public authority that has used competitive (contracting) for bus service has discontinued the practice." [45]

Private transportation providers have an incentive to provide safe service of high quality -- the profit motive. Private companies can make profits only if they continue to have and add business. Private providers must perform to retain present contracts and to be favorably considered for future contracts. Additionally, public transit agencies can increase performance incentives by incorporating performance guarantees, contract renewal options and financial penalties for performance deficiencies.

The favorable experience with competitive contracting does not imply that private firms do not experience performance difficulties. Private companies, like their public transit counterparts, do not always perform to standard. But if a contractor fails to meet service standards, the public agency can swiftly obtain improvement through contract remedies, and, if necessary, discharge the contractor. Reversing unacceptable performance is more difficult and complex when service is provided by public transit agencies. The persistence of public transit's driver absenteeism problem is just one example of this.

#### D. LABOR AND COMPETITION

EPI asserts that the lower hourly wage of private sector drivers results in less reliable service to the public. The EPI authors compare private bus drivers to minimum wage "hamburger flippers" at McDonald's. As has been demonstrated (see above), there is no necessary correlation between service reliability and a higher-than-market-rate driver compensation. In any case, the average bus driver in the competitive private bus industry is compensated at an hourly rate above the median for US non-supervisory production workers.

The appropriate comparison is not between "hamburger flippers" or other minimum-wage workers and public bus drivers. It is between public transit bus drivers and those who do the same work in the private sector --- private bus drivers. Operating in a competitive market, private companies must pay a competitive rate of compensation to their employees. If employers fail to pay the "going rate," they will fail to attract sufficient numbers of

employees with the skills appropriate to the task. They will no longer be competitive and the business concern will not survive. Indeed, the competitive market place is the primary determinant of wages and benefits for the vast majority of American workers.

#### Public Transit Labor Costs Are Excessive

The competitive market has had scant influence on the escalation of labor costs in public transit. The average public transit bus driver is paid an hourly wage that is 58 percent higher[46] than the average private bus driver, 34 percent higher than the average private bus driver at a large unionized company and 39 percent more than the average US non-supervisory employee.[47] In addition, public transit bus drivers are paid higher fringe benefits than private bus drivers and US production workers, and as a result, total compensation to public bus drivers exceeds competitive compensation by 75 percent to 150 percent.[48] The nation could not afford to pay all public employees 75 percent to 150 percent more than the going rate.

#### Should Public Employees Be Paid More than Private Employees?

State and local governments conduct private sector salary surveys to establish public compensation packages that are comparable to those for workers of similar skills, tasks and responsibilities in the competitive market. Rarely do public employees make vastly more than their private sector counterparts as they do in public transit.

The extent to which a public employee is paid more than the "going rate" represents a hidden tax on society. In public transit, excessive wages result in less service and higher fares and, thereby, encourage greater reliance on the automobile.

Lower service levels require fewer employees. Wages and benefits that otherwise would provide a living to families in poverty instead are used to sustain higher levels of unemployment and make the underclass more permanent.

Government should not do more for public transit employees than it does for other public employees. Indeed, there is no justification for government to ensure greater than competitive compensation for public employees than it does for private employees. In fact, the higher-than-market wages and benefits and the degree of job protection enjoyed by public transit employees are unprecedented for either public or private employees. If government were to guarantee all employees compensation 75 to 150 percent greater than the competitive rate, the United States would be well on its way to the economic ruin of countries that have followed the same path -- Argentina and the nations of eastern Europe.

We can't have it both ways. We can continue to pay public transit employees substantially more than the competitive rate, or we can increase public transit services and seriously attempt to reduce our reliance on automobiles. For two decades, the impact of public transit policy has been strongly skewed toward the former.

#### Expensive Work Rules

The authors of the BPI report do not consider that there is more to labor costs than hourly compensation. Public transit agencies are saddled with expensive labor contracts that include counterproductive work rules -- work rules that the competitive market cannot afford in private labor contracts.

Part Time Labor Restrictions: Restrictions against the use of part-time labor is costly. Yet, most public transit labor contracts severely limit or prohibit the use of part-time labor. Part-time labor is appropriate for public transit, because a large percentage of

public transit service is consumed during rush hours. To accommodate the increase in passengers, more buses and drivers are needed during rush hours than can be used the rest of the day. To cover both morning and evening rush hours, full-time drivers are paid overtime even though their services are not required during the day. Using part-time drivers for rush hour would mean that fewer full-time drivers would be needed and that both full- and part-time drivers would be paid only when they work. This is why using part-time drivers is customary in school transportation.

Public transit agencies routinely have offered to guarantee current employment and compensation levels to present employees so that part-time labor does not result in layoffs or reduced pay. Nonetheless, public transit unions have been resistant to the part-time staffing levels appropriate to the nature of public transit service. Similarly, some public transit labor contracts forbid competitive contracting of services even when the positions and compensation of present employees are protected.

**Pay for Not Working:** Most public transit labor contracts require the operation of "extra board", which includes drivers who are not assigned to drive buses on a particular day but who wait in the driver's room at the public transit facility until called to fill in for an absent driver. Sometimes extra-board drivers operate buses and are paid for driving; other times, extra-board drivers are paid to sit and wait. At some agencies, because of the excessive absenteeism of public transit drivers, off-duty drivers are paid double-time to work for absent drivers. Substitute public transit drivers, who have skills that can be learned in a month or less, are paid whether or not they work; substitute public school teachers, who require at least four years of training, are paid only when they work.

The net effect of these restrictive work rules is that public transit bus drivers work as few as 36 minutes for each hour paid at some large agencies, and few work more than 50 minutes for each hour's pay. Practices such as these would bankrupt a company in the competitive market.

#### Labor Rates Escalate, While Productivity Declines

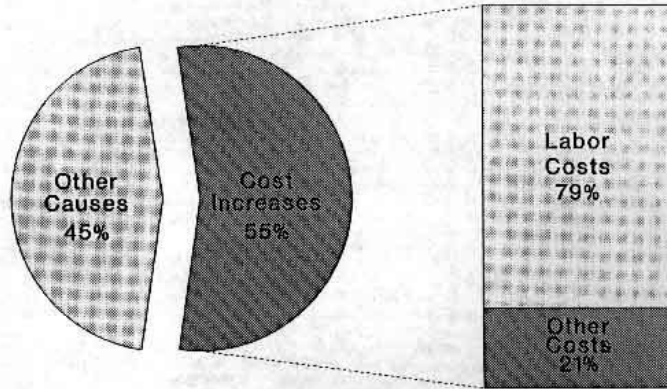
The EPI report misinterprets a study by Don H. Pickrell[50] as finding that wage increases and declining labor productivity accounted for less than one-half of the total increase in public transit costs from 1970 to 1980. The Pickrell report indicates that wage increases and declining labor productivity accounted for less than one-half of the total increase in public transit deficits for 1970 to 1980.

The Pickrell study addresses the rise in public transit deficits, which are the difference between fare revenues and operating costs. Public transit deficits are covered by public subsidy. Increases and decreases in public transit deficits are not always related to costs; deficits may vary as a result of changes in public policy, service levels, or public transit ridership.

The Pickrell study states that operating cost increases accounted for 54.7 percent of public transit operating deficits and that increases in wages and declining labor productivity accounted for 43.3 percent of public transit deficits. That means that wage increases and declining labor productivity accounted for 79.2 percent of the inflation-adjusted increases in public transit operating costs from 1970 to 1980 (See Figure 3: RELATIONSHIP OF COST INCREASES TO DEFICIT INCREASES).

FIGURE THREE

## RELATIONSHIP OF COST INCREASES TO DEFICIT INCREASES



DEFICIT INCREASES

COST INCREASES

Computed from Pickrell, 1983  
Adjusted for Inflation

	<u>Increase in Deficit</u>	<u>Increase in Cost</u>
Total cost increase per mile	54.7%	100.0%
Total labor cost increase	43.3%	79.6%
Hourly compensation	25.3%	46.3%
Declining productivity	18.0%	32.9%

EPI dismisses declining public transit labor productivity as a necessary consequence of increases in rush hour service. In a recent study, however, Charles Lave cites that rush hour service has not increased; it has declined by 15 percent in recent decades. [51] Lave also reports that public transit operating speeds have increased by 13 percent over the same period. The drop in rush hour service and the increase in operating speeds, of themselves, would have a positive effect on labor productivity. As such, Lave's findings suggest that public transit productivity may have declined even more than is suggested by the raw numbers.

#### What Has Gone Awry In Collective Bargaining?

The extreme escalation of labor compensation and the decline in labor productivity in public transit are contrary to what would have been expected in either a competitive environment or in a public agency bargaining environment. The monopoly power of public transit labor has been magnified by a particularly expensive provision of the Urban Mass Transportation Act of 1964, as amended. [52]

Section 13(c) of the Urban Mass Transportation Act requires that adequate labor arrangements be made to ensure that employees are not harmed as a result of federal funding. In practise, the impact of 13(c) has been enormous. Under 13(c), the Department of Labor must certify that adequate arrangements have been made to protect labor before any single public transit grant can be approved for operating or capital expense. This certification process has been interpreted to require negotiation of special labor agreements between the public transit agency and its union --- agreements that are in addition to existing labor agreements. Public transit unions have sought concessions from public transit agencies that they otherwise could not have obtained through the collective bargaining process. The 13(c) process

"...has inevitably led to protracted negotiations between the parties before any section 13(c) agreement is reached, particularly where management refuses to acquiesce in labor's demands or seeks to gain some greater control over its operations. The result of the inability of the parties to agree has been delay in approval of Federal grants.." [53]

This second chance at labor negotiation has added substantially to the monopoly power of public transit unions and, thereby, to public transit costs. One provision of 13(c) requires that an employee whose job is eliminated due to economies or efficiencies be provided up to six years' severance pay. This is not a level of protection that we can afford to provide other public or private employees. Section 13(c) has given



"... labor a degree of leverage without precedent in either (the) rail industry or public sector employment relations. This precondition factor has skewed labor-management relations in the transit sector and provided transit unions with an enviable advantage in the bargaining process." [54]

#### E. BELOW COST BIDDING

EPI is concerned that private providers will employ below cost ("low-ball") bidding to obtain a contract and increase their rates later in the contract period. The EPI report states that:

"Since it is a common practice to deliberately underbid in order to get the first contract and capture the market, bids cannot be assumed to represent the actual cost of private operation, which ultimately will be passed on to the public."

It is not common practice in public transit to underbid to get the first contract; in fact, EPI cites no examples. In public transit, competitive contracts routinely require companies to submit fixed prices for each year of the contract without permitting subsequent price negotiation. This process guarantees that the bid will represent the actual cost passed on to the public.

EPI attempts to construct an example of low-ball bidding from the New Orleans case, where it interprets a statement by the contractor to indicate that a bid price was lower than full costs. While sufficient evidence is not provided to determine whether the interpretation is true, it is important to understand the implications of "low-ball" bidding in the context of fixed-price competitive contracting:

The private provider gains nothing from bidding below its costs, since the contract will be rebid at its expiration and the incumbent contractor will again face competition for the contract.

If the private provider bids too low, there is no public loss, only a private loss. In effect, the private provider has made a gift of private funds to the riders and taxpayers.

If the contractor fails to perform adequately as a result of bidding too low, the public agency can and should terminate the contract. A responsible company, however, is unlikely to perform poorly, since unsatisfactory performance will severely restrict its ability to win future contracts with the contracting agency and other public agencies (public transit agencies, the military, school districts, etc.).

Even if Greyhound/Rhodes (the New Orleans contractor) had submitted a bid for less than true costs, it would have been unable to use that advantage to increase its price, because the contract was a fixed-price contract. Moreover, Greyhound/Rhodes will have no advantage when the contract is rebid at expiration.

Low-ball bidding for a fixed-price contract is a serious public policy concern only when the low-ball bidder is a public agency. The public loses when a public agency submits a low-ball bid, or constructs a low-ball internal cost for comparison purposes. When a public agency makes decisions based upon less than true costs, the deficit always is paid by the public through lower services or higher taxes or fares.

## F. MONOPOLY

EPI suggests that competitive contracting will result in monopolistic or oligopolistic markets in the long run. The authors base this conjecture on evidence that a large percentage of contracts have been won by the larger private companies. EPI fails to consider that small, local, private companies often have won competitive contracts, and usually the larger companies have won their contracts in open competition with smaller local companies.

EPI is concerned about future monopolies. Yet public transit in the United States is currently provided by monopolies. Competitive contracting is a solution to the low productivity and lack of cost control that result from public transit's monopoly position.

The dynamic of the private bus industry is not conducive to monopoly or oligopoly, for the following reasons:

- \* The barriers to entry and exit are relatively low. The bus business is not a high capital business. This makes the business particularly attractive to minority entrepreneurs.
- \* There are no substantial economies of scale; as a result, smaller companies can compete with larger companies on a price basis.[55]
- \* There is a large pool of labor that can be quickly trained to drive buses. It takes a month or less to train a bus driver.
- \* Buses are old technology. EPI estimates that the technology has not changed much since the 1920's. EPI's fear that new technology could become the province of only one large private bus operator allowing for a monopoly position is unfounded.
- \* The most substantial barriers to participation in competitive contracting by smaller companies are faulty construction of requests for proposals by public transit agencies and the preconceived notions of some public transit agencies that only the larger companies are capable of operating routes. Public transit agencies that have experience in competitive contracting are becoming sophisticated in the construction of requests for proposals such that small companies are at no disadvantage in bidding for service.
- \* There are more than 5,000 private bus companies in the United States, many of which are prepared to compete for public transit service.

Prior to the establishment of public transit agencies, public transit service was provided by regulated local private monopolies. The demographic changes of the 1950s and 1960s precipitated steep declines in transit ridership, and private companies could no longer operate solely from passenger fares. Self-supporting regulated private monopolies were replaced by subsidized unregulated public monopolies.

Monopolies should be permitted only where there is no alternative; only if necessary services or products of sufficient quality and cost efficiency cannot be produced by the competitive market; and only so long as this is true. Monopoly provision of service may be necessary for utilities, but there is no compelling justification for monopoly provision of transit. Competitive contracting provides a cost effective alternative to public transit monopoly while it ensures public control.

## G. ROUTES AND SYSTEMS

EPI contends that lowering the costs of individual routes does not result in lower system-wide costs. EPI reasons that "urban transportation networks are [complete systems,] not merely a collection of separable routes..."

In fact, urban transportation systems are not only a collection of separable routes, they are also a collection of separable driver work assignments that are combined into routes or groups of routes. Driver work assignments are constructed by sophisticated computer programs that maximize efficiency within the constraints imposed by public transit labor contracts. These same computer programs can construct efficient segments of the urban transportation system to be offered for competitive proposal. System-wide savings have been achieved through competitive contracting of routes and groups of routes.

EPI postulates that riders would be inconvenienced by a public transit system composed of multiple operators. The experience suggests otherwise.

- \* The 20 largest urban areas in the United States currently are served by multiple public transit agencies. It is customary for adjacent public transit agencies to develop fare payment and interchange agreements so that riders are not inconvenienced.

- \* Public transit agencies require competitive contractors to operate services under the same fare and transfer arrangements as internally produced services.

- \* Successful integration of multiple services is not limited to the US. London Regional Transport's (UK), bus system includes more than 1,000 buses operating under competitive contract, in addition to 3,000 non-competitive buses, all operating in a coordinated system.

- \* Finally, large public transit agencies normally operate their own services out of multiple operating facilities (garages).

## H. FULLY ALLOCATED COSTS AND UMTA

EPI contends that UMTA requires public transit agencies to compare their fully allocated costs to competitive bid costs and requires recipients to award contracts to private companies even when public costs are lower than competitive costs.

EPI cites as evidence a general manager from the Santa Barbara public transit agency. The manager claims he was put under pressure by UMTA and private providers to award a contract that would have increased the costs of service to his agency. When a private providers' group filed a legal protest, UMTA's Chief Counsel found that Santa Barbara had "violated fundamental principles of federal procurement..."[56]

The Chief Counsel's decision was not based upon UMTA private participation guidelines; it was based upon federal procurement guidelines. The Chief Counsel's decision directed Santa Barbara to undertake a new procurement. UMTA neither directed nor encouraged Santa Barbara to enter into a contract that would increase its costs, and no contract was awarded to any private provider.

UMTA does not mandate local decisions. UMTA requires, however, that public agency cost comparisons be based upon a fully allocated analysis so that all costs are considered. The local agency is free to award, or not award, contracts based upon its own local criteria. Without a fully allocated analysis, some necessary costs may not be considered, such as the costs of driver absenteeism, vacations, holidays, and other very real out-of-pocket costs.

Upon development of a fully allocated analysis, UMTA encourages public transit agencies to exclude the costs of any function that will remain after competitive contracting.[57]

## I. OTHER COMPETITIVE CONTRACTING ISSUES

### Flexibility

EPI suggests that competitive contracting is a rigid practice in which the public agency is required to precisely anticipate future service needs, including service increases or decreases.

Public transit agencies have developed sophisticated competitive contracts that permit service changes at an agreed unit price. Some contracts permit the movement of competitively contracted services from one route or area to another. Finally, public transit agencies always reserve the right to cancel the contract if it is not in the public interest to continue operating the service (because of low ridership, for example).

### Monitoring Costs

EPI suggests that higher monitoring costs may cancel any cost savings from competitive contracting.

Reasonable analyses of the costs of competitive contracting include increases in public monitoring activity. Usually monitoring costs are small, from less than two percent to five percent of the total contract costs. Furthermore, any competent public transit agency already will have committed substantial resources to monitoring its own services, and that monitoring activity should continue for competitively contracted service (and those existing monitoring costs should be excluded from the public agency cost estimates used in comparison to competitive costs).

## J. DENVER AND COMPETITIVE CONTRACTING

The EPI authors express particular concern about legislatively mandated competitive contracting in Denver and predict that, among other things, no cost savings will result since the law forbids the lay-off of present employees.

The no-layoff provision was included in the Colorado law as a political compromise to address the concerns of the public transit drivers' union. It was understood that cost savings in the initial period would be less as a result of this compromise. Full savings are expected to be achieved early in the contract periods as attrition reduces the size of the transit agency's staff. Because the contracts contain fixed prices for their five-year terms (as required by the law), the long-term savings are expected to far outweigh these short-term implementation costs.

Denver's Regional Transportation District has reported that, excluding the costs of employee redundancy, the savings on the first 7 percent of service are 50 percent and that the savings on the second 6 percent are 25 percent.[58] Figures have not yet been published for the third package of service, which was implemented in late 1989.

EPI indicates that the legislatively mandated competitive system in Denver was the first time that existing transit service had been competitively contracted. In fact, existing conventional bus services had previously been competitively contracted in Los Angeles, San Diego, Kansas City, Seattle, Minneapolis, Washington, Miami, Fort Wayne, and elsewhere.

EPI states that the Colorado law defined the "prime purpose" of public transit to be service to the "transit dependent." To the contrary, the law's definition of the purpose of public transit is considerably broader:

"The General Assembly hereby finds, determines and declares that: Public transportation services are provided to assist the transit dependent and the poor, to relieve congestion and to minimize automotive pollution."[59]

EPI's quotation of the preamble to the Colorado competitive contracting law excludes the elements of safety and service quality -- issues of great interest to the authors of the legislation. The entire phrase is (excluded portion underlined):

"public transportation service should be provided at the lowest possible cost consistent with the desired service and safety; private transportation providers have been effectively used under competitive contracts to provide transportation services at lower costs and with lower annual cost increases."[60] (emphasis added)

#### K. EXTRANEOUS ISSUES

EPI cites additional examples to support its central thesis, none of which are relevant to competitive contracting.

##### Westchester County, New York

EPI indicates that private operation of the public transit system has been costly and difficult for the public agency to manage.

This contention does not warrant review, since Westchester County is a private monopoly system, not a competitively contracted system. The incumbent operator has a state-granted franchise that is not subject to competitive contracting. The private monopoly situation that exists in Westchester County is not, and has not been, advocated for other areas.

##### New Jersey Transit

EPI quotes New Jersey Transit's concern about "destructive competition."

"Destructive" competition would involve unregulated competition between operators on the same routes. Competitive contracting involves a regulated system in which there is no possibility of such same-route competition. The public transit agency awards contracts to operate exclusively over certain routes for a defined period of time, thereby excluding any possibility of same-route competition.

#### IV. SUMMING UP: A PUBLIC PURPOSE FOR PUBLIC TRANSIT

The purpose of public transit is to provide mobility and to reduce air pollution and traffic congestion. In the interests of the riders and the taxpayers, transit services must be reliable and safe and produced at the lowest possible cost.

Competitive contracting of transit is not a partisan issue. It is supported by both sides of the aisle. Democrats and Republicans, liberals and conservatives have supported competitive contracting as a safe, cost-efficient, quality solution to the runaway costs and declining productivity of public transit.

Competitive contracting is not a theoretical construct. There are hundreds of examples of competitive contracting within the United States and throughout the world, and the inefficiencies and costliness of monopoly in public transit and in other industries is well documented. Competitive contracting should be judged by its record.

Competitive contracting is unbiased. The public transit agency and private contractors compete on the basis of quality, safety, reliability, and price. When objective criteria are used, there is no innate bias toward public or private provision of service. Competitive contracting requires that the interests of the riders and the taxpayers be the paramount consideration.

Competitive contracting saves money. Cost savings from competitive contracting average 30 percent in the United States.[61] Where competitive contracting does not result in the same quality and quantity of service for a lower price, the public agency should itself provide the service.

With America's huge budget deficit and the increased need to be competitive in world markets, we can no longer afford to pay more than necessary to produce any public service, including public transit. The Pennsylvania Supreme Court put the issue succinctly:

If government cannot provide services at least of a quality and at a cost commensurate with similar services provided by private enterprise, it is, by definition, unreasonable to utilize tax dollars for that purpose.[62]

Public transit can fulfill its public purpose -- increase its market share and reduce traffic congestion and air pollution -- only if it converts each new inflation-adjusted dollar of revenue into new service. This is likely to occur only if public transit is subjected to the incentives of the competitive market through competitive contracting.

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## NOTES AND REFERENCES

1. EPI defines privatization broadly, including deregulation, private monopoly operation, management contracting and competitive contracting of service. Only competitive contracting of public transit bus service has been seriously advocated in the United States and this paper is therefore limited to that subject.
2. Calculated from US Department of Commerce and UMTA Section 15 data.
3. Calculated from UMTA Section 15 data and American Public Transit Association data.
4. Calculated from US Census Bureau data.
5. Calculated from UMTA Section 15 data.
6. Calculated from UMTA Section 15 and American Public Transit Association data.
7. Calculated from Interstate Commerce Commission and American Bus Association data.
8. Assumes that additional new service would have produced 20 percent fare recovery and that additional fare revenues would have been applied to expansion of service.
9. Calculated from data in "Urban Rail in America: Forecast versus Actual Ridership and Costs," Transportation Service Center, U.S. Department of Transportation (report prepared for UMTA).
10. James Mansbridge, "Service Expansion Plan Evaluation Report" (report to the Board of Commissioners of the Regional Transit Authority), August 26, 1988.
11. Calculated from quarterly savings documented in Mansbridge, August 26, 1988.
12. James Mansbridge, "Privatization", October 1988.
13. Carney J. Campion (General Manager), letter from the Golden Gate Bridge, Highway and Transportation District (Golden Gate Public transit) to James Harberson, Chairman of the Board of Supervisors of Sonoma County, September 15, 1988.
14. Calculated by reducing Golden Gate's fully allocated costs by the amount of General and Administrative expense (20.0 percent). General and administrative (overhead) expense has been excluded since little of this expense is saved through competitive contracting of service. Source of data: 1988 Transit Operating and Financial Statistics: Transit Systems Statistics for Calendar/Fiscal Year 1987 (American Public Transit Association, 1988).
15. Price Waterhouse, Bus Service Continuation Project, FY 1987-1988 Evaluation (Report to the Los Angeles County Transportation Commission, 1989).
16. S. E. Rowe (General Manager of the City of Los Angeles Department of Transportation), memorandum to Councilman Nate Holden, Chairman of the Transportation and Traffic Committee of the Los Angeles City Council, July 24, 1989.
17. City of Los Angeles Department of Transportation, Cost comparison sheet developed with respect to the downtown circulator system competitive procurement of 1989.
18. Mark Schlinckman, "Private Firm to Run Bus Route", St. Louis Post Dispatch (July 7, 1989).
19. Wendell Cox, The Potential for Optimizing Public Transit Service through Competitive Contracting (Report prepared for the Urban Mass Transportation Administration, 1987).
20. Calculated from data in Metropolitan San Diego Short Range Transit Plan: Fiscal Years 1990-1994 (Metropolitan Public Transit Development Board, 1989).
21. Calculated from Urban Mass Transportation Administration Office of Private Sector Initiatives, Private Sector Briefs (June 2, 1986).
22. Cox, 1987.
23. "Houston Metro Picks GLK", ENR Journal, September-October 1988.
24. Calculated from Urban Mass Transportation Administration Office of Private Sector Initiatives, Private Sector Briefs (August 1, 1987).
25. "LRT to Double Tender Ops." Bus Business, November 15, 1989.
26. London Regional Transport: Annual Report and Accounts 1988-1989, London Regional Transport, 1989.
27. The bus drivers' union has recently been successful in an arbitration demand that prohibited competitive contracting and made it necessary for Fort Wayne to eliminate a major portion of the higher service level--this despite employees were guaranteed their positions and would lose no income. The Fort Wayne News-Sentinel editorialized against this outcome ("PTC Union's Victory is a Loss for Everyone Else," January 6, 1989).
28. Urban Mass Transportation Administration Office of Private Sector Initiatives, Private Sector Briefs.
29. "Contracted Commuter Service Receives Increased Popularity in Snohomish County", Bus Ride (September 1989).
30. Calculated from data in Metropolitan San Diego Short Range Transit Plan: Fiscal Years 1990-1994 (Metropolitan Public Transit Development Board, 1989).
31. Calculated from UMTA Section 15 data.
32. Wayne K. Talley, "A Cost Analysis of the Tidewater Transportation District Commission," report prepared for the Tidewater Transportation District Commission.
33. "Request for Proposals of the Regional Transit Authority #87-033", September 8, 1987

34. Mansbridge, October 1988.
35. Peat, Marwick and Mitchell, Study of Operator Absenteeism and Worker's Compensation Trends in the Urban Mass Transportation Industry, report prepared for the Urban Mass Transportation Administration (1980).
36. Calculated from US Department of Transportation, National Safety Council, and Urban Mass Transportation Administration data.
37. Calculated from National Urban Mass Transportation Statistics: 1986 Section 15 Annual Report (United States Department of Transportation Urban Mass Transportation Administration, 1988).
38. Calculated from School Bus Fleet: Annual Fact Book (December-January 1989).
39. Price Waterhouse, 1989.
40. *Ibid.*
41. Rowe, 1989.
42. John J. Murphy, "Contracting with the Private Sector: How to Do It Right," paper delivered to UMTA's Fourth Annual Symposium, The Private Sector and Public Transit (March 1988).
43. "Contracted Commuter Service Receives Increased Popularity in Snohomish County", Bus Ride (September 1989).
44. Rowe, 1989.
45. Wendell Cox and Jean Love, Designing Competitive Tendering Systems for the Public Good: A Review of the US Experience. Paper presented to the International Conference on Competition and Ownership of Bus and Coach Services (Thredbo, New South Wales, Australia: May 1989).
46. Not all public transit drivers are paid more than their competitive counterparts. Some labor contracts call for starting wages at or below the competitive rate, progressing upward to above market rates over a period of months. Some public transit labor contracts permit the employment of drivers at competitive rates on services that the public agency has won through competitive contracts. Even with these two practices, the average compensation of public bus drivers is 75 percent higher than the competitive rate.
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48. Calculated from data in John A. Dash and Associates, "Full Time Bus Operator's Top Hourly Wage Rates", Wendell Cox, Optimizing Public Transit Service through Competitive Contracting, American Bus Association, report prepared for the Urban Mass Transportation Administration (1988), and The Statistical Abstract of the United States: 1989.
49. Analysis of data in 1988 Transit Operating and Financial Statistics for Calendar/Fiscal Year 1987, American Public Transit Association (1988).
50. Don H. Pickrell, The Causes of Rising Transit Operating Deficits, report prepared for the Urban Mass Transportation Administration, July 1983.
51. Charles Lave, Measuring the Decline in Transit Productivity in the United States, paper presented to the International Conference on Competition and Ownership of Bus and Coach Services (Thredbo, New South Wales, Australia: May, 1989).
52. Urban Mass Transportation Act of 1964, as amended, 49 USC. 1601 et seq. (federal law)
53. G. Kent Woodman, "An Analysis of the Labor Issues Raised by the Subcontracting of Public Transit Operations", Public Private Transportation Network (Washington: September 11, 1987).
54. *Ibid.*
55. While there have been no comparable studies for the competitive bus industry, studies of public transit have demonstrated the absence of economies of scale (for example, Lave, 1989). That smaller companies are awarded contracts in competition with large national firms suggests that economies of scale also may be absent in the competitive market.
56. Decision by Chief Counsel of the Urban Mass Transportation Administration, California Bus Association v. Santa Barbara Metropolitan Transit District, (December 19, 1988).
57. Price Waterhouse, Fully Allocated Cost Analysis: Guidelines for Public Transit Providers, report prepared for the Urban Mass Transportation Administration (April 1987).
58. Regional Transportation District Controller's Office, "Cost of Transportation Services: RTD/Private Contractors", April 18, 1989.
59. Colorado Senate Bill #164, 1988.
60. *Ibid.*
61. Roger F. Teal, Genevieve Guiliano and Edward K. Merlok, "Public Transit Service Contracting," report prepared for the Urban Mass Transportation Administration, 1986.
62. Supreme Court of Pennsylvania, Ridley Arms, Inc. v. Township of Ridley. 522 A.2d 1069, 1987.