STRATEGIES FOR REDUCING TRANSIT DEFICITS:

Sustainability and Customer Service

LACTC

Presentation to the
Annual Convention of the

AMERICAN ASSOCIATION OF
STATE HIGHWAY AND TRANSPORTATION OFFICIALS

New Orleans
11 December 1984

By: Wendell Cox, Member
Los Angeles County Transportation Commission

MOBILITY - THE MISSION OF TRANSIT

Great changes are taking place in public transportation. These changes are particularly important to state officials who administer substantial transit assistance programs.

Transit faces financial challenges, including renewed proposals to eliminate federal operating assistance. There is, however, a pervasive problem in transit, one which will remain regardless of the outcome of current proposals. The long term health of transit is threatened by continuing super-inflationary cost increases. Those cost increases mean that transit service, under the current structure, cannot be sustained and that the prospect is for further fare increases, service reductions and public revenue increases.

There is, however, an alternative to this downward spiral. Through public-private partnership, not only can cost increases be contained, but deficits can also be substantially reduced.

Public transportation is important to urban areas. It provides mobility to those without automobiles. It provides mobility to discretionary riders, whose utilization reduces traffic congestion, air pollution and energy consumption. Transit's customers are the riders and taxpayers, who are served by the availability of cost effective mobility.

TRANSIT PERFORMANCE DEFICIENCIES

Transit is beset by two debilitating performance deficiencies.

First, costs continue to increase well above the inflation rate. From 1976 to 1982, unit costs of large public bus operators increased 61 percent above the inflation rate. In Los Angeles alone, the annual inflation penalty, adjusted for inflation, is now more than $110 million.

These super-inflationary cost increases have been financed by the riders, through increased fares, reduced services and capital projects delayed or cancelled. It has further been borne by taxpayers in higher taxes. Virtually no industry expert any longer suggests that transit costs can be held to within inflationary bounds.

A second, and more immediate problem is the loss of suburban support. A number of suburban jurisdictions have withdrawn from regional transit authorities, taking both services and public revenues. These withdrawals have been spurred not only by super-inflationary cost increases, but also by the poor match of transit services to suburban markets.

As transit service was expanded to the suburbs, inner city designs were largely utilized. In the inner city, transit service is provided on all major streets, at frequent intervals. Transfers from one line to another are convenient, because of this service frequency. The mere existence of frequent service represents a comprehensive mobility system in the inner city.

Things are far different however, in the suburbs. Trip patterns are less focused, and development is less dense, both residential and commercial. Because of these factors, patronage is lower and less frequent service is justified. The importance of convenient transfers is heightened. Yet, suburban transfers are rarely coordinated, and can take more than 30 minutes. As a result, transit in the suburbs is anything but a comprehensive mobility system.

THE ROOT OF THE PROBLEM

Cost control is elusive in transit. State productivity programs have yielded minimal results. Labor concessions, such as part time labor and productivity clauses, have had little impact.

This is not to suggest that transit management is at fault. Transit costs cannot be controlled, because transit is a monopoly. Similarly, transit is insufficiently responsive to markets because it is a monopoly. So long as transit is provided under a monopoly structure, it will neither control costs nor provide market oriented service.

THE PERVASIVE PROBLEM: LACK OF SUSTAINABILITY

Even after new revenue sources come on line, the pervasive problem of super-inflationary cost increases will remain. Transit service cannot be sustained under the present organizational structure. Fares must continue to rise faster than inflation. Services will continue to be curtailed. Rising deficits will generate renewed efforts to obtain additional revenue sources.

Transit's lack of sustainability is nothing new. Since 1950, patronage has declined 73 percent relative to total employment. In the 1970s, while billions of dollars in public funds were granted to transit, its market share in large cities declined by 30 percent. The 1980s have been characterized by super-inflationary fare increases, service reductions, patronage losses and additional public funding requests.

There is no reason to believe that transit service can be sustained. While new revenues will be required to replace those lost, new public revenues are not a long term solution. Because costs cannot be controlled, new revenue sources will periodically be required. No new revenue source can keep pace with the increasing costs of transit, as currently structured.

New revenues are not a strategy for growth. The problem in transit is not revenues, it is expenses. Revenue based strategies will only result in further retrenchment.

FROM MONOPOLY TO COMPETITION

The antidote for monopoly is competition. Around the world there is increasing recognition that competition can result in significant public benefit. In the United Kingdom, the Federal Republic of Germany and Canada, public monopolies are being sold to private investors, entering the competitive sector. In the Peoples Republic of China, competition is being increasingly embraced, to improve the performance of public institutions.

In transit, there is an alternative to the downward cycle of fare increases, service cuts and increased taxes. The British Government's "White Paper on Buses" put it this way:

> But it is too easy at present for local authorities to claim that the only alternative to high subsidies is massive fare increases and service cuts. There is another way - to improve efficiency and reduce costs. The present licensing and subsidy arrangements, without the spur of competition, protect the operators rather than their customers. This balance must be changed.

Competition is injected into public transportation through purchase of service contracting. This trend has been opposed by some public transit operators, which have perceived their mission as directly operating bus service. The public is not served by a particular institution protecting an operating monopoly. The public is served by the availability of cost effective mobility.

A new understanding of the mission of transit is emerging. The object of policy is not the operation of buses, rather it is mobility. The appropriate focus of policy is described as follows by the Citizens League of the Twin Cities:

> The essential function of government is deciding. Government may later, itself, do what it has decided should be done. But equally, it may not. Its basic intention is simply to see that what should be done is in fact done.

Contracting is not a return to the private transit model which preceded the public takeover. That structure was also monopolistic, with private providers holding exclusive franchises. Unlike both the old private monopoly and the present public monopoly, contracting is characterized by competition.

Neither is contracting an abdication of the public policy role. It is not transfer of policy responsibility to the private sector as with the British Telecom divestiture. No transit service is profitable under the present structure, and continued public policy control is required.

Under contracting, no franchise is conveyed to the private provider. Upon contract expiration, the public agency may award the contract to another provider, or may reassume direct operation. Competitive bidding results in improved cost control. To maximize the deficit reduction, the least productive services are contracted, leaving the best services under direct public operation.

COMPETITION AND SUSTAINABILITY

Competition can make public transit service sustainable. There is an increasing array of examples of cost reduction, improved market orientation and cost containment.

In Phoenix, a market oriented demand responsive service replaced Sunday conventional transit service. The savings exceed 80 percent.

In San Diego, demand responsive service is provided to communities in which low patronage levels could not otherwise justify service. Suburban fixed route services are also provided under contract, and unit costs have not only been contained, but have even been reduced from year to year. These privately contracted services have been credited with downwardly impacting the costs of even directly operated public transit service.

Services in Los Angeles County further illustrate the advantages of contracting:

In Carson, a small bus local circulation system operates on the customer oriented "timed transfer" design. Costs are 70 percent below direct public operating costs. And, these costs are achieved with a union shop.

Just yesterday, a new local circulation service began in Glendale. Luxury vehicles are used, and service is accessible to the physically disabled. Costs are 65 percent below those of public operation.

A 1981 study by the Southern California Association of Governments demonstrated that public express services in Los Angeles County could be contracted to existing private transit providers, while eliminating the need for public subsidies, both for capital and operating costs. This is particularly notable, since public operating costs do not include capital expenditures.

The Santa Clarita Valley express service has been contracted by Los Angeles County to private providers for five years, at a savings of more than 50 percent. For the past two years, unit costs have declined, while local public transit costs have increased at super-inflationary rates.

Private costs are lower because private providers operate in a competitive environment. Private cost increases are similarly lower, because of competition. Contracting can bring the benefits of competition to public transportation, better serving the riders and taxpayers.

EMERGING ORGANIZATIONAL STRUCTURES: INSTITUTIONALIZING COMPETITION

Contracting has generated significant institutional changes both in the United States and abroad. Generally, two forms have emerged, policy fragmentation and policy separation.

Policy fragmentation involves services being administered by local agencies rather than the regional transit authority. One form is withdrawal from the regional authority, as has occured in Kansas City, San Diego and the Twin Cities. Another form is the establishment of supplemental services, bypassing the regional transit agencies, such as has occured in Los Angeles, Washington and San Francisco.

Policy fragmentation yields benefits to taxpayers in improved cost effectiveness and results in better service to local riders. However, regional mobility needs are not well addressed by policy fragmentation. Thus, some areas have embraced more comprehensive reorganization.

To better provide for both local and regional mobility, transit policy has been separated from transit operations in the Twin Cities, Dallas and San Diego. The policy organization establishes the system, and contracts with public and private organizations for its provision. Generally, inner city services remain the domain of the public operator, in order to preserve the positions of transit employees.

Perhaps the most notable change has occured in London, which may have the best transit system in the English speaking world. Earlier this year, Parliament established London Regional Transport, which will progressively contract portions of the London bus system to private providers.

Policy separation permits officials to better concentrate on the mission of transit, mobility, rather than on operating service. The public operator can concentrate on market segments for which it is well positioned. This clarity of mission results in improved service to both riders and taxpayers. By institutionalizing competition, sustainability is achieved.

A number of areas are considering increased utilization of competition in public transportation. Examples are the state of Pennsylvania and Oakland County, in suburban Detroit, where studies are underway. A recently released Federal policy requires routine and substantive involvement of private providers in the local planning process, and further mandates consideration of private providers for any new or restructured service.

THE PRIVATE TRANSPORTATION SUPPLIER MARKET

There is a substantial supplier market in urban transportation. It includes surviving private transit provider, as well as operators of charter buses, intercity buses, airport buses and vans, taxis, paratransit, school buses and medical transportation. There is considerable potential for increased private investment in public transportation.

Indeed the school bus industry represents an instructive model. Private contractors provide about 40 percent of the pupil transportation in the United States, accounting for more daily rides than the entire public transit industry. School buses are operated only in peak periods, when the economics of service provision are most unfavorable. This would suggest a substantial cost disadvantage in comparison to public transit, which operates all day services as well. Yet unit costs in the school bus industry, both public and private, are well below transit costs. And unlike public transit operators, both public and private school bus operators account for capital expenditures within their operating budgets. Predictably, public school bus costs are higher than private school bus costs, yet the difference by no means approaches the magnitude of difference which exists in transit. School bus costs, both public and private, have been contained because of competition. The school bus industry demonstrates the long term benefit of private provider involvement.

TRANSIT DEFICITS AND CUSTOMER SERVICE

Transit best addresses its mission by providing more mobility, not less; by charging lower fares and carrying more riders, not by charging higher fares and carrying fewer riders. Under contracting, riders complete their trips as fast and as safely. Under contracting, air pollution, traffic congestion and energy consumption are reduced just as much. There are important differences, however. Under contracting, costs are reduced and cost increases are less. Fare increases can be moderated and service levels can be preserved. There is even the prospect for cost containment in directly operated service, because of competition.

Contracting is not a question of partisan politics, nor of political philosophy. It is rather a question of public service and what works. Contracting works because competition is inherent. In athletics, records are seldom set in the absence of competition. Similarly, institutions perform best when competitively challenged. Even the Chinese Communists, who have been supreme devotees of public monopoly, have realized that competition is necessary to counteract the natural performance stagnation characteristic of monopolies.

Without structural change, transit service will not be sustained in the long run. The downward spiral will continue. Fares will rise above the inflation rate. Services will be reduced. Passengers will be driven away. And there will be the inevitable call for new public revenues, which at best will be a temporary palliative. Revenue shortfalls are only a symptom of the problem. The cause is the structural inability to control costs.

If public transit is to sustain its important role, then not only must public revenues be stable, but so also must be fares and service levels. This cannot be achieved unless the growth in expenses is kept within inflationary limits. Through competition, expenses can be controlled, and thus sustainability attained. Competition, through purchase of service contracting, has proven to yield improved service for riders, while reducing deficits, to the benefit of taxpayers.

The basic question is one of mission. Is the purpose of public transportation to preserve the present institutional structure? If so, then revenue based strategies serve the objective well. Deficits will continue to rise, new public revenues will be required and the downward spiral will continue.

If, on the other hand, the purpose of public transportation is to serve riders and taxpayers, then the structure must be changed, and competition must be embraced. From the perspective of public policy, and from the perspective of service to riders and taxpayers, the answer is obvious.