

## Competitive Contracting of Bus Service: *A Better Deal for Riders and Taxpayers*

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## EXECUTIVE SUMMARY

This study examines the New York City bus transit system and analyzes the potential cost savings of applying a competitive-contracting approach to bus service, using the model of various major American and European cities. The study finds that:

- In addition to dedicated taxes and toll revenues, New York's bus operations consume at least an additional \$345 million in state and city operating subsidies.
- The use of competitive contracting in major transit systems in the U.S. and Europe has produced reductions in operating costs ranging from 20-51%, with savings in excess of 35% being the norm.
- Replicating even the least impressive of those results, a 20% cost reduction, would save New York's bus transit system the \$340 million—enough to nearly eliminate the city and state operating subsidies.
- Competitive contracting can work in a high-wage environment like New York City. For example, bus routes put up for competitive bidding by the New Jersey Transit Authority have expenses 35% lower than the routes the Authority operates itself.
- New York's transit costs are exceptionally high. Depending on whether the figures are adjusted for higher regional labor costs, New York's publicly operated bus routes have either the 5th or 6th highest operating expenses among the 30 largest American bus transit systems. New York's private bus franchisees, selected without any bidding process, have either the 7th or 12th highest expenses.

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# COMPETITIVE CONTRACTING OF BUS SERVICE

## *A BETTER DEAL FOR RIDERS AND TAXPAYERS*

### OVERVIEW

At a time when New York desperately needs to find ways of delivering public services more efficiently, its transit bus operations could prove to be a significant source of recurring savings for the future.

The key to unlocking these savings is competition—an essential spur to improved performance and efficiency that's been missing from transit in New York for most of the past 50 years.

New York City's bus system<sup>1</sup>, by far the nation's largest, has been controlled for decades by protected monopolies. The New York City Transit Authority (NYCTA), part of a state government agency, serves about three-quarters of the bus routes while also running the subways. The remaining bus service is the exclusive domain of a handful of private carriers under city franchise agreements never formally opened to bidding.<sup>2</sup>

Despite steep increases in ridership and fare revenues in recent years, the two bus operations continue to be massive money-losers. In addition to dedicated taxes and toll revenues, they now consume at least \$345 million in state and city operating subsidies—a budgetary expense the Governor and Mayor Bloomberg will be understandably anxious to reduce in fiscally troubled times.<sup>3</sup>

In similar situations, other major urban areas have been able to save money and improve performance by moving to competitive contracting of bus transit services. Under this approach, a public transit agency continues to determine bus fares and routes, but private companies (and, in some cases, the transit agency's own employees) are invited to bid against one another for the right to provide some or all of the service. Routes are awarded to qualified bidders who offer the best combination of price and performance, and the contractors' performance is monitored by the public agency. The routes are re-bid every few years to keep contractors on their toes.

Compared to public transit monopolies, bus lines converted to competitive contracting have generated unit-cost savings averaging 38 percent in other major American cities, as documented in this report. Significant savings also have been realized in European cities that have subjected their bus services to competitive bidding. Closer to home, competitively contracted bus routes in the New Jersey Transit system cost 35 percent less to operate than routes directly operated by the public agency.

Reducing New York's overall bus transit operating costs just 20 percent—much less than the actual experience on competitively contracted lines in other urban areas—would save \$340 million a year in current terms. That would be enough to nearly wipe out both the city *and* state budget operating subsidies for bus transit.

### Seizing the moment

Looming state and city budget gaps, transit strike threats, the likelihood of a fare hike, and the scheduled expiration of the city's private bus franchises in the year ahead all make this a perfect time to begin stripping away the anti-competitive insulation from New York's bus system.

Given the immense potential benefits of competitive contracting, New York transportation policy should follow three parallel tracks:

- The city Department of Transportation should immediately begin seeking bids for the 82 bus routes now in the hands of private franchised services. Although the franchises don't expire until the end of 2003, it's important for the City to clearly signal its intentions as soon as possible, so a maximum number of potential bidders can begin gearing up for the process. To address City Council concerns about job security for current drivers, proposed contracts could include a hiring preference for employees of the current franchisees. These companies could also bid in a fair and equal process.

- The New York State Metropolitan Transportation Authority (MTA), parent of the NYCTA, should begin planning to seek competitive bids for operation of the authority's bus routes. Ultimately, all 235 routes could be competitively contracted over a number of years to ensure no layoffs of current union employees. Moreover, with appropriate safeguards to ensure fair competition, the NYCTA's own bus department can be encouraged to join in the competition.
- Mayor Bloomberg should follow through on his Executive Budget promise to "explore the possibility" of lifting competitive restrictions on private commuter vans. Temporarily relieved of onerous city restrictions due to this summer's Queens bus strike, scores of independently operated vans have once again shown how they can fill the transit service void. They could do even more if they were formally incorporated into the transit system under a competitive contracting structure.

Thanks to innovative fare reforms and the city's biggest employment gains in a half-century, bus ridership in New York City between 1996 and 2000 rebounded strongly from a decades-long decline. During the same period, economic growth enabled both the state and city governments to amass record budget surpluses. Although the actual cost of a New York City bus ride remained considerably more than double the average fare, there was little pressure to address the transit system's enduring inefficiencies.

Now that the surplus cushions have disappeared in the wake of last year's economic slowdown and the attack on the World Trade Center, New York can no longer afford to turn a blind eye to the potential benefits of bus transit competition.

### THE BIRTH AND GROWTH OF THE BUSING MONOPOLY

Bus service, like all public transportation in New York City, originated with private entrepreneurs. In fact, America's first fixed-route urban transportation service was a 12-passenger, horse-drawn "omnibus" coach that began carrying passengers up and down Broadway for a fare of 12 and one-half cents in 1827.<sup>4</sup>

One hundred years later, there were at least 50 different private companies running bus lines with the required city authorization (legally known as a "franchise") to use the public streets. By the late 1940s, however, the private bus operators were succumb-

ing to the same cost pressures as New York's formerly private subway lines—most notably the city's insistence on maintaining the five-cent transit fare. Within a decade of taking over the bankrupt subways in 1940, the city also began assuming control of financially struggling private bus lines in Staten Island, Queens and parts of Manhattan.<sup>5</sup> By 1962, Fifth Avenue Coach Lines and Surface Transit had been formed by mergers and were profitable. Their union went on strike, however, and the city created a temporary body, the Manhattan and Bronx Surface Operating Authority (MABSTOA) to acquire the companies and end the strike. MABSTOA was then expected to turn over its operations to the private sector or the NYCTA.<sup>6</sup>

After 1962, New York's remaining private transit system consisted of a handful of bus companies with service concentrated in Queens and Brooklyn. Over the past 30 years, however, these private carriers have become so dependent on public support and fixed, no-bid contracting arrangements that they essentially are "private in name only," as a 1991 transportation study put it.<sup>7</sup> Indeed, in the recent strike involving three of the bus companies, union workers took their demands for increased health benefits directly to City Hall.

### Dual monopolies

The New York City Transit Authority, a subsidiary of the New York State Metropolitan Transportation Authority (MTA), runs up to 3,840 buses a day serving 204 local and 31 express routes in the five boroughs. Another 1,084 buses are run by four private companies under contract to the city Department of Transportation (DOT):<sup>8</sup>

- Green Bus Lines, Triboro Coach, Jamaica Buses and Command Bus Company (collectively designated "GTJC" in federal transit data), once independent entities, are now subsidiaries of the same company, running a total of 601 buses that serve 50 local and express routes in Queens and Brooklyn, including daily commuter service to Manhattan.
- Queens Surface runs 280 buses that serve 17 express and local routes in Queens, Manhattan and the Bronx.
- New York Bus Tours Inc. runs 128 buses on six express routes between the Bronx and Manhattan.
- Liberty Lines Express runs 75 buses on nine express routes between South Yonkers, the Bronx and Manhattan.

## DRIVING BUSES, LOSING MONEY

While most public and media attention focused on the troubles of the subway system during and after the city's fiscal crisis of the 1970s, the city bus system experienced an even more severe decline. Between 1970 and 1996, the NYCTA's weekday bus ridership dropped a shocking 48 percent, compared to a decline of 14 percent on the subways during the same period.

With the MTA's introduction of discounted Metrocards and free subway-bus transfers in 1996, the numbers of passengers on both systems rebounded strongly. Weekday bus ridership increased by 29 percent between 1996 and 2000, a third again as large as the subway's gains, and attained its highest total in more than two decades.

The city-franchised private bus companies—which charge the same \$1.50 peak fare and \$3 express fare as New York City Transit—also realized significant increases in their ridership during the late 1990s. Despite the resulting increase of more than \$100 million a year in total bus fare revenues, however, both systems in New York continued to fall far short of becoming financially self-supporting.

The NYCTA collected \$572 million in bus fares in fiscal 2000—about 43 percent of the \$1.3 billion bus system operating expenses it reported to the federal government that year.<sup>9</sup> The remaining costs had to be covered by nearly \$700 million in city and state operating subsidies, dedicated taxes, and a portion of the annual surplus of the Triborough Bridge and Tunnel Authority, plus a small amount of advertising revenue.<sup>10</sup>

The routes operated by the seven private companies perform worse by this standard, covering only 39 percent of their operating expenses out of the farebox, according to the city's Independent Budget Office.<sup>11</sup> In fiscal year 2000, the companies received \$145 million in state and city operating subsidies—\$89 million from the city alone—to make up the difference. In fiscal 2002, that amount was projected to hit \$162 million, including \$110 million from the city.<sup>12</sup>

This not only imposes a burden on all New York taxpayers, but it raises a fundamental question of equity: shouldn't bus passengers' fares cover more of the actual cost of the service?<sup>13</sup>

## Dollar vans: Fighting to provide an alternative

Van services, also called jitneys or “dollar vans,” charge a fare of \$1.00 or \$1.25. They first began to proliferate in New York outside Manhattan during the 1980 city transit strike. Today they fill an important niche in New York City's transportation system, satisfying public demand for convenient, affordable transportation.

The vans (generally with 15 seats) also serve the public interest by reducing traffic congestion and air pollution, by providing jobs for their (largely minority) employees, profits for their owners and tax revenues for the city. Numerous studies<sup>14</sup> have concluded that vans are a valuable element in New York City's surface transit system. Their value was highlighted once again during the recent strike against private bus companies in Queens, in which van services filled in part of the service gap for tens of thousands of riders.

Yet, for all their benefits, such van services were treated as outlaws until the late 1990s—and even now, fully licensed services continue to operate in a legal grey zone, at best. After the city took over van regulation from the state in the early 1990s, the City Council (acting at the behest of the Transport Workers Union) tried a number of maneuvers to prevent or limit the issuance of van licenses by the city Taxi and Limousine Commission. Backed by Mayor Giuliani, the van operators finally prevailed in state Supreme Court,<sup>15</sup> which ruled in March 1999 that the Council couldn't interfere in the Giuliani Administration's issuance of van licenses pursuant to the city law.

Unfortunately for the riding public, the city law continues to prohibit van operators from operating on regular transit bus routes and requires them to pick up passengers by “pre-arrangement” only, which is virtually unheard of in actual practice. The van operators recently lost a court challenge to these provisions.

As of June 2002, the city had licensed 67 companies to run a total of 683 vans, according to the Taxi and Limousine Commission. Of this number, 346 vans were operating on a regular basis, although hundreds more are thought to be operating illegally. All together, such vans carry up to 60,000 passengers a day, according to the industry's estimates.

## THE HIGH COST OF NEW YORK'S BUSES

New York is hardly unique in being dependent on publicly subsidized transit monopolies virtually oblivious to bottom-line costs. Indeed, the situation is common in cities across the country—largely as an unintended consequence of federal transportation policies. But even when the comparison is confined to other large systems with similar shortcomings, bus transit in New York is a costly proposition.

As shown in Table 1, NYCTA's hourly operating expense of \$90.54 ranked fifth and the \$86.18 per hour combined cost of the city's private franchise operators ranked eighth among the nation's 30 largest transit systems in fiscal year 2000.<sup>16</sup> NYCTA was 12 percent above the average for the group, while the private franchisees were about 7 percent above average.

### Labor costs are the key

Labor costs, which are the lion's share of operating expenses in all types of bus operations, are the key explanatory factor in these cost rankings.

For example, New York City Transit bus drivers are paid at the maximum hourly rate of \$22.89, which amounts to \$47,789 a year on a standard 40-hour week basis. But the *average* driver actually earns \$54,277 a year—14 percent more than top scale. This is because the transit system's relatively high wages are compounded by costly and inefficient work rules.

Bus operations by definition tend to spread beyond a typical eight-hour work day—which makes bus drivers' jobs particularly well suited to flexible and part-time work arrangements. But under New York City Transit's contract with the Transport Workers'

Union, virtually all jobs in the system are full-time jobs. With many work shifts stretching beyond an eight-hour day, many employees routinely receive special added pay.<sup>17</sup> Indeed, a driver with sufficient seniority to claim the most lucrative work assignments and pay differentials can earn nearly \$87,000 a year under the current union contract.

Fringe benefits—including vacation and sick leave, as well as health insurance and pension contributions—amount to 50 percent of wages for employees of NYCTA's bus system. While this benefit load is close to the national transit average, the total New York City Transit labor cost of more than \$1.1 billion equaled 83 percent of gross bus operating expenses as of 2000, compared to a national transit average of 78 percent. Because employees of the privately franchised companies belong to the same union and are covered by similar work rules and pay scales, their operating costs per hour are not much different.

Given the important role of labor costs in determining operating expenses, it might be argued that a nationwide comparison is misleading unless it takes into account the sometimes wide disparities in labor costs among different regions of the country. This concern can be addressed by adjusting each transit system's labor factors—wages, salaries and benefits—to match the national average wage for full-time blue-collar workers, as reported by the U.S. Labor Department.

Even after applying a standard of comparison reflecting the region's relatively high labor costs, however, NYCTA's cost is still above average, ranking sixth highest in the labor-adjusted item costs also shown in Table 1. The combined cost of the franchised systems ranks twelfth on a labor-adjusted basis, slightly above the adjusted national average.

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**Table 1: Largest U.S. Bus Transit Systems  
Ranked in Descending Order of Ridership, Fiscal Year 2000**

State	System	Annual Ridership (1,000s) [a]	Vehicles in Max. Service	Total Operating Expenses (1,000s)	NOMINAL COST		LABOR-ADJUSTED [b] COST	
					Per Vehicle Hour*	Rank	Per Operating Hour	Rank
NY	New York City Transit	821,995	3,840	\$1,323,557	90.74	5	80.48	6
CA	Los Angeles County Metro	347,451	1,888	668,021	88.81	7	88.27	2
IL	Chicago Transit Authority	302,090	1,577	492,143	78.15	15	69.67	20
PA	SEPTA	161,213	1,132	333,969	83.25	12	74.03	17
NJ	New Jersey Transit	141,404	1,682	465,096	85.45	10	77.84	10
DC	Washington-Metro	129,524	1,179	295,750	85.88	9	77.87	9
NY	New York City-Franchised	111,311	1,084	264,985	86.18	8	77.40	12
MA	Mass Bay Transp Auth	98,584	769	213,480	78.50	14	60.70	26
CA	Municipal Railway (SF-MUNI)	96,394	372	141,548	95.39	3	81.66	4
TX	MetroTransAuth HarrisCnty	86,736	1,017	213,864	65.35	27	85.19	3
MD	MTA-Maryland DOT	85,352	649	165,461	83.69	11	76.79	13
GA	Metro Atlanta RTA	83,119	580	171,340	71.50	23	71.38	18
MN	Metro Transit	73,478	785	168,935	73.14	20	63.20	25
WA	King County DOT	73,287	931	243,984	90.32	6	76.02	15
WI	Milwaukee Cnty Trans Sys	70,548	461	107,652	65.64	26	58.65	27
CA	Alameda-Contra Costa TD	67,412	606	179,054	90.89	4	77.47	11
HI	City & County of Honolulu	66,603	431	103,907	75.92	18	68.65	22
PA	Port Authority Allegheny	66,554	848	181,395	70.34	24	67.68	23
FL	Miami-Dade Transit Agency	65,821	530	150,855	72.84	22	78.92	7
OR	Tri-County Metro District	61,819	570	146,745	73.21	19	68.88	21
CO	Regional Transp District	61,036	639	193,990	73.00	21	71.34	19
CA	Orange County Trans Auth	55,527	380	98,071	66.46	25	66.06	24
OH	Greater Cleveland RTA	51,592	619	164,215	79.69	13	75.24	16
LA	RTA-Orleans & Jefferson	50,649	299	77,308	76.56	16	76.63	14
NV	ATC\VanCom [d]	49,555	231	54,715	43.23	30	42.76	30
CA	Santa Clara Valley TA	47,008	427	183,600	110.62	1	94.59	1
TX	Dallas Area RTA	45,936	441	175,286	76.37	17	77.89	8
TX	VIA Metropolitan Transit	44,415	421	74,687	49.93	28	56.43	28
MI	City of Detroit DOT	43,887	401	151,038	96.19	2	81.33	5
CA	San Diego Transit Corp. [c]	42,780	268	88,680	49.30	29	47.66	29
<b>AVERAGE</b>					80.89		75.07	

a. Unlinked passenger trips

b. To reflect regional differences in labor costs, the wage, salary and benefit components of each bus system's operating expenses were adjusted to a national norm, defined as the ratio of the U.S. average hourly wage for all full-time blue-collar workers to the average blue collar wage in the labor market served by the bus system, as reported by the U.S. Labor Department in National Compensation Surveys for 2000. For example, the national average blue-collar wage of \$13.69 was 87 percent of Metropolitan New York-New Jersey-Connecticut-Pennsylvania regional average of \$15.74; thus, the labor-adjusted operating expense for New York City Transit is the sum of its wages, salaries and benefits multiplied by 0.87 and then added to non-labor costs.

c. Includes privately contracted services.

d. Figures for Las Vegas do not include operator's unreported profit.

\* Vehicle hours consist of all of the time a bus is on the road, in service and out of service, including "deadhead" periods most common in express service.

**Sources:** Transit data from Federal Transit Administration, National Transit Database, 2000. Labor market data from U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey and regional summaries for 2000.

**Benefits of competition: A regional analysis**

The potential benefits of competition and the shortcomings of New York City’s current system are further highlighted by a comparison of bus transit costs in the New York-New Jersey metropolitan region, where living expenses and operating environments are more similar across jurisdictional lines.

As shown in Table 2, the region’s major bus monopolies have roughly similar operating expenses—roughly \$91 per hour for both New York City Transit Authority and Long Island Bus (another state MTA subsidiary), \$88 for the publicly operated portions of New Jersey Transit’s service, and an average of about \$86 for New York City’s non-bid franchised companies.<sup>18</sup>

Westchester County’s Bee Line system is privately operated but, like New York City’s franchised

services, is not competitively bid. Instead, the county periodically has negotiated rates on a cost-plus basis with Liberty Lines Transit, the company that has controlled the county bus franchises for decades. The \$78.23 operating cost of the Westchester County Bee Line was 13 percent below those of the New York City Transit Authority and Long Island Bus, the roughly analogous public monopoly serving Nassau County.

Thirteen percent is not an insignificant difference—but true competition could generate even greater savings for New York City, if New Jersey’s experience is any guide. As shown below, the roughly \$57 per hour cost of New Jersey Transit’s competitively contracted lines (which run buses under the New Jersey Transit name) is 35 percent lower than the \$88 per hour cost of its publicly run service. Competitive contracting is a major part of the explanation for that striking difference.

Table 2: New York Metropolitan Area Bus Transit Services, Fiscal Year 2000

State	System	Operator Type [a]	Annual Ridership [b] (1,000s)	Vehicles in Max. Service	Total Operating Expenses (1,000s)	Operating Expense per Vehicle Hr.*
NY	New York City Transit Authority	1	821,994.5	3,840	\$ 1,323,556.89	\$ 90.74
NY	Long Island Bus	1	29,889.4	269	78,887.7	90.50
NJ	New Jersey Transit [c]	1	141,403.9	1,682	439,391.8	88.03
NY	New York City-Franchised	2	111,311	1,084	264,985	86.18
	<i>New York-GTJC</i>	2	78,729.2	601	150,295.7	83.76
	<i>Queens Surface Corp</i>	2	25,746.5	280	75,167.8	99.58
	<i>New York Bus Tours, Inc.</i>	2	3,943.9	128	22,293.9	75.00
	<i>Liberty Lines Express</i>	2	2,891.3	75	17,227.8	75.48
NY	Liberty Lines Transit (Westchester Bee Line)	2	23,927.6	273	62,622.3	78.23
NY	Suffolk County Transit [d]	2	4,406.2	130	23,524.6	59.19
NJ	New Jersey Transit (contract service)	2	8,375.8	143	25,704.3	56.92

Operator type:

- 1. Public
- 2. Public-private contract

- a. All buses publicly owned; maintenance and support arrangements may differ by operator
- b. Unlinked passenger trips
- c. Includes statewide operations
- d. County-sponsored service provided by seven private contractors

\* Vehicle hours consist of all of the time a bus is on the road, in service and out of service, including “deadhead” periods most common in express service.

**Source:** Federal Transit Administration, National Transit Database, 2000.

For many years, New Jersey Transit's contracted routes operated on much the same basis as New York City's franchisees. The existing private carriers on those routes retained the fares they collected and billed the agency based on fares plus projected operating costs. Then, about 10 years ago, New Jersey Transit switched these services to a competitive request-for-proposal (RFP) basis, awarding five-year contracts to carriers offering the best combination of cost and technical qualifications. The change gave the agency more control over the service—and the carriers a greater incentive to control costs.<sup>19</sup>

New Jersey Transit now retains all fares and pays contracted carriers based on a bid price. Using the competitive approach, one of New Jersey Transit's own units lowered its costs so much that it was able to submit the winning bid for a service previously operated by a private carrier.

Suffolk County's transit bus system had the second lowest operating cost in the region, at \$59.19 per hour. This was 24 percent below the Westchester Bee Line and 34 percent less than Long Island Bus—although living costs in eastern Long Island are not that much lower.

Unlike Westchester's Bee Line, which relies on a single carrier, Suffolk's 130-bus service is divided among seven relatively small local companies. And while Suffolk's transit bus contracts are periodically renegotiated rather than competitively bid, a local transit official<sup>20</sup> observes that most of the companies also compete in the school bus contracting and charter business on Long Island. Such small companies tend to have similar maintenance and overhead costs for both transit and school bus operations. Thus, the private carriers' need to keep operating costs low in order to compete with one another for school district contracts in the same market has helped to restrain Suffolk County's transit costs as well.<sup>21</sup>

#### HOW COMPETITION CAN WORK

About 40 percent of public transit systems in the United States use at least some contracted services. Of that number, roughly two-thirds of the systems—mostly those in smaller rural and suburban markets—contract out all of their service. On a nationwide basis, including large urban systems, “about six percent of bus vehicle-hours (in revenue service) . . . was purchased from contractors” as of 1998.<sup>22</sup>

However, not all of that contracted bus service was *competitively* contracted—a crucial distinction, as the case of New York City makes clear.

#### How *not* to design a contract-based system

While New York's seven franchised companies together comprise the largest privately contracted bus system in the United States (and the seventh largest bus system overall in terms of ridership), they could serve as a case study in how *not* to purchase bus services.

The routes served by the New York City franchisees have never been put up for bid to attract the best combination of cost and quality. Instead, the seven companies are essentially reimbursed on a net cost-plus basis.

Like most urban bus operators in the United States, public and private, the New York franchisees run vehicles owned by government agencies—in this case, the city Department of Transportation (DOT). This results from the federal policy of reimbursing public transit systems (and public systems only) for up to 80 percent of their investments in both fixed capital assets and rolling stock.

The private carriers retain their own fare revenues, plus a New York City Transit Authority reimbursement for Metrocard trips, and are paid a management fee fixed at 3.3 percent of their 1988 gross receipts. Total operating expenses for each company are capped at their actual 1991 levels, adjusted annually for inflation. Six of the companies also receive small payments for meeting an array of performance standards monitored by the DOT; a seventh (Queens Surface) is penalized for failing to meet standards. The operating subsidy is essentially the difference between fare revenues and their capped costs.

This arrangement gives the private franchised companies little incentive to curb costs. In fact, as the city's Independent Budget Office has pointed out, the private carriers effectively have a *disincentive* to save money, “because any savings are translated into an equivalent reduction in (their operating) subsidy.”<sup>23</sup>

In New York City Transit's bus unit, as in all public monopolies, fiscal management is ultimately described by Parkinson's Second Law: “Expenditures rise to meet income.”<sup>24</sup> The public agency's income

stream comes from state and city operating subsidies and from taxes dedicated for transit purposes, which rise most quickly in a growing economy. Cost containment is not an end in itself, except as necessary to stay within the transit system's budget. The result: as in nearly every other American city, bus service costs much more than it should, thus adding to the burden on taxpayers.

### Doing it the right way

Outside New York, most transit systems contract for bus service mainly in the hope of reducing costs and increasing their flexibility to offer new services. And these hopes overwhelmingly have been realized. Ninety-three percent of system managers say their expectations for contracting have been at least partially met, with a solid majority describing contracting as fully meeting expectations.<sup>25</sup> More than half said reduced operating costs were among the positive effects of contracting.<sup>26</sup>

These survey findings are consistent with prior studies highlighting the potential savings from competitive contracting of government services in general and of bus services in particular. For example, a 1989 study documented savings of 22 to 39 percent in situations where publicly provided bus service was switched to competitive contracting.<sup>27</sup> A comparison of hourly bus operating costs in the nation's largest metropolitan areas as of 1995 found a 30 percent cost advantage for competitive contracting versus non-competitive bus service costs.<sup>28</sup>

While only a small minority of the nation's fixed-route urban bus service is provided on a competitively contracted basis, contracting is common enough so that certain basic approaches have been tried and found effective in systems throughout the country. Other bus system operators have learned that competitive contracting arrangements work best when they include these four elements:

- Bid the contract on a fixed-price basis—in terms of price per revenue hour, for example. To the extent a company can drive costs further below the bid price, its profit will therefore grow. This is far preferable to the sort of arrangement now used in New York—which, as noted, pays private companies based on costs incurred and effectively penalizes them if they manage to operate less expensively.
- Foster competition by creating several contracts, each one for a relatively small group of routes, and

by limiting contract duration to three years with two one-year options. "This interval is apparently long enough to avoid repeat transaction costs associated with frequent rebidding, but short enough to ensure that incumbent contractors do not become complacent and that competitor interest is sustained."<sup>29</sup>

- Monitor the contractor's performance and enforce the specified penalty provisions of the contract—including, for example, fines for cancelled runs, late starts, dirty buses and excessive breakdowns.
- Provide bus contractors with vehicles and consider providing service facilities as well. "This practice, too, may foster competition by reducing contractor's capital costs and by allowing the agency to retake and rebid the service if the winning contractor fails to perform as required."<sup>30</sup>

### Successful contracting examples

Among the nation's top-30 transit systems, San Diego, Denver, Houston and Los Angeles have shifted some service to competitive contract status over the past 15 years—making possible the kind of operating cost comparisons shown in Table 3.

In each of the following cases, operating costs and relative percentage savings figures were calculated using statistics reported for each bus company and bus system in the 2000 National Transit Database compiled by the U.S. Department of Transportation. All figures for contracted bus services cited below and in Table 3 include contract administration expenses and other overhead, fully allocated per operating hour.

#### *San Diego*

After a particularly generous transit labor settlement in 1979, San Diego residents and public officials were concerned to discover that their transit costs were approaching the New York level. They responded by turning over some of their routes to competitive contracting.

By 2000, about 44 percent of the bus services in San Diego (159 vehicles in peak service) was competitively bid through either the Metropolitan Transit Development Board (MTDB) or other jurisdictions reported in federal transit data under the Regional Transportation Service (RTS). Competitively contracted bus services make up a larger portion of the total service in San Diego than in any city that has adopted this approach.

Unionized employees of the public agency, San Diego Transit, “have not been terminated, but reallocated to other non-contract routes at time of contract changes.”<sup>31</sup> Nonetheless, the union representing employees of San Diego Transit did not take the change lying down; when the first existing San Diego Transit route was converted to competitive contracting in 1989, the union mounted a legal challenge, arguing “that the route belonged to San Diego Transit and could not be given away by MTDA.”<sup>32</sup> The judge disagreed, however. Since then, under the pressure of such competition, San Diego Transit reduced its own costs sufficiently to bid successfully against private carriers for some routes. Compared to the public agency, MTDB and RTS bus services in San Diego operated at savings of 30 to 37 percent respectively as of 2000.

*Denver*

In 1988 the Colorado Legislature inaugurated one of the nation’s most ambitious state-sponsored transit contracting efforts, requiring Denver’s Regional Transportation District (RTD) bus system to convert 20 percent of its service to private carriers

on a competitively bid basis. The law included a provision guaranteeing job security for unionized employees of the public system.

In 1998, the mandate was extended to 35 percent of all service; as a result, by 2000, the contracted portion amounted to 170 buses in peak service. That year the difference in operating expenses between publicly and privately operated lines in Denver was a striking 46 percent.

*Houston*

The Metropolitan Transit Authority (Metro) of Harris County, Texas, which serves Houston, was one of the first public transit agencies in the United States to begin using competitive contracting on a substantial basis. A program that began with the contracting out of park-and-ride services in the 1970s was expanded in 1997 when Metro contracted with a private company for the operation of an entire bus garage and all services housed in that location. The jobs of unionized employees of the public system were protected in this transition, heading off legal challenges.

Table 3: Cost of Competitively Contracted vs. Non-Contracted Buses\*

	OPERATING COST PER VEHICLE HOUR (\$)**			
	Public Operation	Contracted Operation	Cost Difference	Competitive Contract Savings
Denver	80.72	43.23	-37.49	46%
Houston	67.56	50.00	-17.56	26%
Los Angeles				
Foothills Transit Zone	91.38	53.11	-38.27	42%
Los Angeles City DOT	91.38	56.03	-35.35	39%
LA Metro contracted	91.38	55.24	-36.14	40%
San Diego				
MTDB	56.25	39.25	-17.00	30%
RTS	56.25	35.27	-20.98	37%
<b>Average [a]</b>	<b>76.42</b>	<b>47.45</b>	<b>-28.97</b>	<b>38%</b>

[a] Unweighted

\* all routes originally run by public systems

\*\* Vehicle hours consist of all of the time a bus is on the road, in service and out of service, including “deadhead” periods most common in express service.

**Source:** Federal Transit Administration, National Transit Database, 2000

Houston's was the first public system to convert an entire facility (as opposed to selected routes) to contractual status. The private contractor, which in 2000 ran 130 peak buses providing 12 percent of Houston's service, reported operating costs 26 percent lower than that of the public agency.

*Los Angeles*

Over the past dozen years, private firms have competitively bid on three different sets of bus routes formerly operated by the Los Angeles County Metropolitan Transportation Authority (LA Metro) or its predecessor agency, the Southern California Rapid Transit District (SCRTD). A total of 491 fixed-route transit buses were operated in peak service by competitively contracted carriers in Los Angeles as of 2000—the largest number in the country.

The most publicized instance of contracting was the creation in 1988 of the Foothills Transit Zone, where contract carriers in 2000 ran 231 buses serving more than a dozen routes in the San Gabriel Valley of Los Angeles County. One early study of Foothills service concluded that it had resulted in long-term savings of 24 to 43 percent “with no evidence of deterioration of service.”<sup>33</sup> As of 2000, the Foothills Zone buses were operating at a unit cost 42 percent lower than that of LA County Metro's publicly operated lines.

In another part of the LA County Metro region, the Los Angeles City Department of Transportation contracted out several former SCRTD routes on which private carriers in 2000 ran 131 buses at a per-hour operating cost 39 percent lower than that of the public agency.

LA County Metro itself has contracted out several previously “high-subsidy” routes in its own system. The system's private carrier on those routes operates 129 buses in peak service at a cost 40 percent below those of the Metro's wholly public lines.

**The European experience**

By far the largest transformation of public monopoly bus service to competitive contracting occurred in Great Britain. Under mandate from Britain's central government, which then controlled regional transit, London Transport<sup>34</sup> in 1986 embarked on a plan to convert 100 percent of its bus service to competitive contracting. By 1999 nearly 40 companies—including privatized successors to the former public monopoly—were providing service under 150 different contracts and the transformation from public monopoly to fully private contracted service was complete.

The results: service improved, ridership increased, and costs plummeted, as shown on Table 4.<sup>35</sup> While accounting and currency differences make direct comparisons of American and foreign bus operations difficult, it is also worth noting that New York's bus operating cost per passenger mile has been estimated to be twice London's, and its vehicle cost per mile is estimated to be almost twice as high.<sup>36</sup>

In 1998-99, the fare-box recovery ratio for London's bus system—the extent to which fares covered operating costs—briefly rose to nearly 100 percent. In the wake of recent fare reductions and rising contract costs, London's recovery ratio now stands at about two-thirds of operating expenses.<sup>37</sup>

**Table 4: Bus Contracting in Europe (Change in Cost Per Kilometer)**

System	Annual Riders at end of period	Service Converted at end of period	Change in Cost per Km*	Time Period
London	1.19 billion	26%	-26%	1985-90
	1.17 billion	57%	-44%	1985-95
	1.3 billion	100%	-51%	1985-2000
Stockholm	380 million	100%	-20%	1991-99
Copenhagen	260 million	100%	-25%	1989-94

\* operating costs per hour not available for European systems

**Source:** Wendell Cox Consultancy ([www.publicpurpose.com](http://www.publicpurpose.com))  
Copenhagen figure provided to authors by Danish transportation officials.

Achieving the same ratio in the two New York systems would save about \$400 million a year in city and state operating subsidies.

London's basic cash fare is one pound, or roughly \$1.50 at current exchange rates; however, most passengers take advantage of various fare-card discount programs, roughly comparable to those available in New York, which can reduce fares to the equivalent of \$1.

### Copenhagen and Stockholm

Competitive contracting of bus service in Copenhagen, Denmark's largest city, was mandated in 1989. Over the next five years, costs dropped 25 percent, and ridership in the 1,150-bus system rose 9 percent, with measured improvements in service quality.<sup>38</sup>

The Swedish Parliament voted to allow conversion of that nation's bus and rail service to competitive contracts more than a decade ago, and virtually all systems have now been converted. Ridership in the 1,700-bus Stockholm system—about half the size of New York City Transit's service—has risen to a new record, and unit costs declined 20 percent.<sup>39</sup>

In both Scandinavian cities, bus contractors were required to assume the public system's existing union contracts, which was not the case in London.

### MOVING TO COMPETITIVE CONTRACTING IN NEW YORK

Given the city's huge market of mass transit users and continuing need for better transit services, competitive contracting of bus service and an expanded role for commuter vans makes more practical sense in New York than anywhere else in the country.

Of course, as is the case with any operational reform, the move to a competitive system will be resisted by those who most directly benefit from the *status quo*—especially the 34,000-member Transport Workers Union (TWU), which represents most employees of New York's existing transit bus monopolies. As it showed during the City Council's attempts to squelch van competition, the TWU can be a politically formidable force. Nonetheless, politics aside, there appear to be no insurmountable legal or statutory barriers to competitive contracting of bus services.

### First steps

New York's privately franchised bus operations present the most immediate—and pressing—opportunity for competitive contracting of bus service in the city. Soon after taking office in 1994, former Mayor Rudolph Giuliani signaled that his ultimate aim was to comply with the 1989 city charter by awarding the franchises on a competitive basis. But the City Council, which must approve an authorizing resolution to change the franchise, bowed to union opposition and resisted moving in this direction. As a result, the franchises have been repeatedly extended, most recently through 2003.

An authorizing resolution proposed by Giuliani to the Council outlined a competitive contracting system framework consistent in most respects with best practices elsewhere. The resolution indicated the city would first solicit bids for Queens routes currently franchised to the Command Bus Company; this would simplify the facility requirements for potential bidders, since the city already owns the Command depot.

Competitive contracting was dealt an apparent setback recently when Mayor Bloomberg spoke out in favor of shifting responsibility for the franchised services to the New York City Transit Authority. Given the city's fiscal crisis, this may have seemed like a politically expedient way to offload what was, as of 2002, \$110 million in annual subsidy costs. But the MTA is already facing a \$600 million budget gap of its own; moreover, the heavily state-subsidized agency will inevitably feel further pressure due to decreases in its dedicated tax revenues and to the state government's yawning budget gap for fiscal 2004. Since the Transit Authority clearly would not run the buses at a lower cost than the current franchisees, the shift of these routes to the MTA is highly unlikely to occur unless the city maintains its subsidy as well. Mayor Bloomberg has a far better chance of saving money by pursuing his predecessor's original goal of competitive contracting.

### Potential obstacles

The key legal issue in the transition to competition for the city DOT franchises will be determining the applicability of Section 13(c) of the Federal Transit Act.<sup>40</sup> Section 13(c) requires that in order for any public agency to receive federal transit grants, the labor rights, privileges and benefits under existing contracts have to be preserved and continued. Furthermore, individual employees of bus system

operators are guaranteed protection against a worsening of their positions with respect to their employment. Employees who end up in lower-paying jobs as a result of an operational change making use of federally funded assets (such as buses) are entitled to be paid the difference between their old and new salaries for up to six years.

As noted in a legal analysis of the law published by the U.S. Department of Transportation, “the potential economic benefits of competitive contracting and any incentive to privatize transit services could be lost if labor costs are effectively locked in from one provider to the next” under Section 13(c).<sup>41</sup>

The Giuliani Administration took the position that Section 13(c) did not apply to unionized employees of the seven privately franchised companies that might lose business if their routes were competitively contracted. The unions and their supporters have disagreed; indeed, this was among the issues raised by the Transport Workers Union during its recent seven-week strike against Queens Surface, Jamaica Buses and Triboro Coach.<sup>42</sup>

The U.S. Department of Labor’s handling of several cases involving transit systems in other urban areas over the past decade provides support for Giuliani’s position. The strongest precedent of this sort can be found in a 1994 Section 13(c) certification dispute in which the Department stated that, when one private carrier wins a bus contract previously held by another, the 13(c) provisions “do not operate to create new employment relationships with a third party, nor do they require the hiring of a predetermined workforce.”<sup>43</sup>

Unfortunately, the Labor Department’s interpretation of Section 13(c) over the past decade has not been unambiguous. For example, after New Jersey Transit cancelled a non-competitively bid contract with Monmouth County Bus Lines and chose another carrier based on competitive bidding, the Department held that a right to “preferential hiring” existed for Monmouth’s former employees.<sup>44</sup> Given rulings such as this, one authoritative legal analysis warns that “the potential for carryover (labor) protections to be imposed (on new private contractors) still exists ... and will continue to have a significant impact on transit systems that rely on private contractors for commuter rail, fixed-route bus or paratransit operations.”<sup>45</sup>

Significantly, Section 13(c) was not ultimately invoked when Denver, Houston, Los Angeles and San

Diego made their moves to competitive contracting. Even in cases where unions mounted a stiff legal and political challenge to competitive contracting, as in Los Angeles, they were unable to use Section 13(c) as a roadblock to bidding out bus routes. This was because, in each case, the transit systems involved were careful to avoid layoffs or other actions that would amount to a “worsening” of conditions for their existing unionized personnel. Competitive contracts were bid for new bus lines, or existing bus routes were put out to bid at a rate that would accommodate normal attrition among drivers for the public system.

Even in the unlikely event that Section 13(c) is found to apply in the case of New York’s franchised bus lines, the city could comply with the law by requiring contractors to give first preference in hiring to employees displaced by the change—something most operators would probably want to do anyway, since the drivers provide a ready, trained labor pool.

In the worst-case scenario, new bus contracts might include provisions for the city to make up the difference between prior wages and salaries paid by the contractors to eligible employees of currently franchised companies that fail to win new contracts. This would not represent a net cost increase over the existing franchised system, although it would certainly slow the rate at which the city realizes any savings from the shift to competitive contracting. However, a normal rate of attrition will result in turnover of half the eligible workforce after just a few years; and, in any event, Section 13(c) benefits end after six years.

In contracting out the city’s franchised lines, best practices elsewhere would suggest that the DOT can maximize the benefits of competition by breaking up the seven existing franchises into more pieces. This would give smaller operators a chance to compete for contracts. DOT also should look for opportunities to configure these bus routes so they can be served by the most efficient combination of full-size buses and commuter vans.

The cost of contract administration under the current franchised system is minimal; DOT’s Surface Transit Operations Unit, which is primarily responsible for this task, was budgeted for \$560,000 in fiscal 2002. A truly competitive contracting system, involving more frequent rebidding and closer monitoring of quality and performance, would undoubtedly cost more to administer. But even if the administrative budget is multiplied four- or five-fold, it would amount to a tiny fraction of the potential savings.

NYCTA's bus service is ideally configured to be gradually contracted out on a competitive basis without incurring Section 13(c) problems, so long as the job security and other rights of existing employees are protected. This can be accomplished by calibrating the rate at which routes are contracted to fall within the normal rate of employee attrition—thus ensuring that no union employees involuntarily lose their jobs and that Section 13(c) is not invoked.

Aside from asserting Section 13(c) rights, the Transport Workers Union conceivably could try to prevent competition on a number of other grounds. Like its counterpart union in San Diego, it could claim the public transit agency has no right to give up existing bus routes—although, as noted, the San Diego employees ultimately lost their case in the California courts. The TWU could also cite the so-called “unit work” concept, which unions generally interpret to mean that any jobs that have been assigned exclusively to members of a particular bargaining unit cannot be shifted to non-members. Or, like the Los Angeles bus drivers who fought to stop the Foothills Zone creation, the union could seek arbitration on grounds that contract provisions have been violated.

However, there appear to be no provisions explicitly prohibiting the contracting out of bus service in the current TWU collective bargaining agreement or in state law. Moreover, as another leading public employee union acknowledges in its “handbook” on the issue, court precedents have made New York a “more difficult” state in which to mount successful litigation to block competitive contracting programs.<sup>46</sup> If all else fails, the TWU could resort to the blunt-force political technique of lobbying for state legislation to flatly outlaw contracting.

#### **The Transit Authority's contracting opportunity**

Assuming the Governor and Legislature favor more efficient transit bus service over preservation of a union monopoly, a breakup of the NYCTA's citywide bus system into many smaller bundles for contracting purposes would ensure there is plenty of competition for the work.<sup>47</sup> After enough routes—say, one-third—have been bid to provide a foothold for the private bus industry, NYCTA would be allowed to join in the competition.

The process of contracting out NYCTA routes could be initiated by the board of the MTA, which is controlled by appointees of the Governor.<sup>48</sup> Leading candidates for competitive contracting would include

the NYCTA's most lightly traveled routes in Queens and Staten Island, which are disproportionate money-losers.<sup>49</sup> Indeed, some of these routes—and late-night bus services, in particular<sup>50</sup>—could be competitively contracted to commuter van companies. In addition to reducing costs, this could actually lead to an increase in service frequency and economically strengthen the dollar-van industry.

It's also time the city loosened its existing restrictions on the ability of dollar-vans to legally serve riders who prefer them. Perhaps the leading cause of government resistance to van competition has been the notion that vans operating on regular lines would “cream” riders from otherwise profitable rush-hour bus service. But this has never actually been proven; indeed, the cost of additional personnel and equipment required for rush-hour operation is far higher than for the “base load” in average operating conditions. Thus, by supplementing rush-hour service on regular routes, vans could actually help *reduce* public bus transit costs.

By all means, public transportation—bus and van—should be regulated to ensure that services are adequately insured, employ qualified drivers and use safe vehicles. But the economic regulation of transportation—dealing with issues such as financing, areas of operation and fares—needs to be consistent and clear. Above all, such regulations need to serve an overriding public interest. The existing restrictions on van operations fail that test.

#### **The London model**

Of all the cities that have tried competitive contracting on a large scale, London probably offers the best model for New York City to follow. In terms of sheer size alone, the British capital more closely resembles New York than any American city does.

Transport for London, a government agency, continues to oversee the London bus system—specifying levels of service, setting a uniform fare, taking the revenue risk, monitoring contractor performance and applying remedies when necessary.<sup>51</sup> Bids, or “tenders,” are generally requested for three-year contract periods, and contractors are selected based on a set of “value for money” criteria. In addition to price, these include the bidder's track record, recent operational and safety performance, and competitiveness of wages and work conditions as an indication of the firm's ability to recruit and retain employees. Operators are paid primarily on the basis of bid price per mile.

An important element in successful bus contracting, in London and elsewhere, is the separation of transit policy from transit operations. In New York, this would mean that the setting of fares, specification of routes and administration of contracts—the role analogous to that of Transport for London—would be handled by the city Department of Transportation or by some new MTA subsidiary or public benefit corporation set up especially for that purpose. To avoid an obvious conflict of interest, NYCTA would be restricted to the role of an operator and potential contractor, not overall system coordinator. Responsibility for monitoring service quality among all bus transit providers would be shifted to the new contracting entity.

### Cost savings potential

A fair, competitive market will always result in lower costs than a monopoly. Based on the experiences of other urban areas, it's clear New York can design a bus contracting system that ensures service does not suffer—or, indeed, improves—in the process.

The question, then, is not *whether* New York City could save money from competitive contracting, but *how much* and *how soon*. The answer to that question depends largely on how effectively and thoroughly the contracting system is implemented.

If competitive contracting is tightly restricted to a token number of routes, the financial impact will be minimal. The NYCTA is so big and its non-capital overhead costs so large—exceeding \$270 million, or 22 percent of total bus operating expenses in 2000, according to federal statistics—that it is likely to save little money by shedding a handful of runs. However, if competition is established as a norm for bus transit and vigorously pursued by city and state officials, experience elsewhere indicates that savings will grow to significant proportions within five years or so.

As noted, four other American urban bus systems have realized unit cost savings averaging 38 percent compared to purely public providers. London's inflation-adjusted units savings hit 26 percent by the fifth year, and reached 51 percent when contracting was completed.<sup>52</sup> New Jersey spends 35 percent less to run competitively contracted lines. It seems reasonable to suggest that New York could save at least 20 percent—much less than results elsewhere in the country or in London, but closer to the documented cost reduction in Scandinavian countries. These savings would begin to materialize within the first three-to-five year contract cycle.

Twenty percent of NYCTA's estimated annual bus operating expenses would amount to nearly \$283 million.<sup>53</sup> For the privately franchised companies alone, a savings of 20 percent would equate to \$57 million—more than half the subsidy the city will be obliged to pay those companies this year. Even in the abnormally inflated context of public finance in New York City, these figures amount to real money. Indeed, if the city matched the average 38 percent savings rate of the other competitively contracting cities highlighted in this report, the savings would reach \$646 million in current terms.

New York can design a bus contracting program that delivers a better deal for taxpayers and passengers while providing the basic job security sought by current transit and bus company employees.

### CONCLUSION

Government goes to great lengths to protect the public from private monopolies—and with good reason. But New York's transit policy is based on the delusion that *public* monopolies are purely devoted to the public interest. The long history of transit in New York demonstrates that this is untrue. Shielded from meaningful competition, all monopolies—public and private—inevitably tend to exploit their customers and taxpayers, while serving their own interests. The New York City bus system is no exception.

As long as the existing transit monopoly is preserved and protected, bus services will remain more costly and less efficient than they should be. New York's city and state treasuries are under severe strain, yet the need for improved public transit is, if anything, growing. As other cities have found, there are ways to save money and serve the public interest without violating the rights of unionized public employees. Even based on conservative estimates, the potential benefits of competitive contracting are simply too large to ignore.

Time is of the essence. Like many of New York's outmoded municipal operations, its bus system cannot be made more efficient overnight. But if the transition to competitive contracting begins right away, the city and state could begin to realize some small initial savings on these services as early as fiscal 2004. The sooner this process begins, the sooner New York can begin to reap the same kind of benefits that competition has brought about in other cities where it's been tried.

## STATISTICAL NOTE

Throughout this report, the primary standard of comparison for unit costs among different transit bus systems is *operating expenses per vehicle hour*, calculated on the basis of reports compiled annually in the National Transit Database maintained by the Federal Transportation Administration.

Using the national database, the operating performance of bus systems can be measured on the basis of time, distance or the number of passengers carried.

Passenger measures are not always useful for cost comparisons, however, because increases in ridership (as occurred in New York in the late 1990s) can mask increases in operating expenses. While passenger load figures reflect how heavily each route is actually being used, this is mainly useful in determining fare-box recovery ratios rather than overall cost efficiency. Comparisons based solely on distance also can produce misleading unit costs—especially for New York City, where travel times on many routes are notoriously slow due to heavy Manhattan traffic.

Operating time, the most neutral unit of measure for bus services, is broken down into two categories in federal transit reports. “Vehicle revenue hours” are limited to the time a bus spends in service on regular routes. The broader category of “vehicle hours” used in this report consists of all of the time a bus is on the road, in service and out of service, including “deadhead” periods most common in express service.

## ENDNOTES

1. Throughout this report, unless otherwise indicated, all references are to fixed-route, local and express bus service, not including special “para-transit” for the disabled.

2. The city did use an informal bidding process to select a new management group for one of the franchised companies, now Queens Surface, in the late 1980s. It was the first and last time in at least 50 years that any semblance of competition was introduced into this part of the city bus system.

3. Calculation of subsidies based on apportionment of New York City Transit Authority bus and subway operating expenses in the 2000 National Transit Database, net of the Authority’s published bus and subway fares for same year, plus reported city subsidy payments to franchised bus companies. In addition to direct operating subsidies appropriated in the city and state budgets, the Transit Authority’s bus operations consume at least \$500 million a year in dedicated state and city taxes and toll revenues.

4. E.S. Savas, Sigurd Grava and Roy Sparrow, “The Private Sector in Public Transportation in New York City,” Institute for Transportation Systems, City University of New York, January 1991, p. 82

5. Ironically, once the city itself became responsible for running the transit system, fares were raised. The basic subway and bus fare has increased fifteen-fold since 1948, when it was raised to a dime from a nickel.

6. The transition of bus service from private to public operation evolved along similar lines in other American cities during the same period. The move was supported by an economic theory that likened mass transit to electrical and gas service—a “natural monopoly” and a public service too important to be left in the hands of operators motivated solely by profit.

7. E.S. Savas, Sigurd Grava and Roy Sparrow, “The Private Sector in Public Transportation in New York City,” Institute for Transportation Systems, City University of New York, p. 83

8. Figures shown here are from federal data for buses in peak service in fiscal 2000; the total number of buses in the private fleets, including spares, is 1,280.

9. The NYCTA’s official operating budget for transit buses was about \$1 billion as of 2000. The larger National Transit Database figure is used as the basis for all comparisons in this study because it includes the NYCTA bus department’s “fully allocated” share of the authority’s total overhead expenses. When depreciation and debt service are added to operating expense, the combined fare-box recovery ratio for buses and subways is just 44.7 percent, according to the NYCTA.

10. The \$800 million figure represents the bus system’s pro-rated share of total tax and operating subsidies for the NYCTA, based on the reported operating expenditures in the National Transit Database for 2000. Including the subway system, these subsidies totaled \$1.4 billion.

11. New York City Independent Budget Office, “Private Buses, Public Subsidies: Will New York Continue to Ride With the Current Franchise Deal?”, May 2, 2002, Policy Brief.

12. Ibid.

13. Despite the common assumption in U.S. transit circles, urban bus service in large cities is not a universal money-loser. For example, the bus systems of Buenos Aires and Seoul, both considerably larger than New York’s, are entirely private and receive no subsidy, but operate at affordable fares.

14. See, for example, the New York City Department of Planning’s October 1998 *Commuter Van Service Policy Study*, which concluded “the van industry can serve to increase the mobility options of thousands of New York City residents without undue impact on other transit service providers.”

15. Supreme Court of the State of New York, New York County, *Rudolph W. Giuliani and Diane McGrath-McKechnie vs. the Council of the City of New York*, Index No. 404215/97, and *Hector B. Ricketts et al. vs. City of New York et al.*, Index No. 102455/97.

16. This measure may actually understate the Transit Authority’s costs, since the agency in 2000 reclassified \$68 million in operating expenses as engineering-related (and, thus, capital) on its federal report. It was the largest such reclassification by any transit agency that year. If this amount is counted in the operating total, the hourly cost of New York City Transit rises to \$95 an hour—second highest in the nation.

17. For example, under the Transport Workers contract, up to 30 percent of bus routes can be “swing runs,” consisting of several hours of idle time for drivers between periods of operation. The contract requires that a driver who works such a run—for example, driving for four hours in the morning and four in the afternoon, with three hours of free time to spend as he or she wishes in between—must be paid for 9.5 hours. If the shift for any reasons stretches to 12 hours, even if it still requires only eight hours of actual work, overtime rules require that the driver be paid for 11 hours.

18. Broken down into separate companies, the operating expenses of New York City’s franchised private carriers at least partly reflect the different types of services they provide. Liberty Transit Express and New York Bus Tours run only express buses, which generally tend to be somewhat less expensive to operate than local service. The GTCJ combined companies and Queens Surface Corp. both provide a mix of express and local service. However, there is no immediately obvious explanation for the fairly sizable \$15 per hour disparity between the nearly \$100-per-hour operating cost of Queens Surface and the nearly \$84 cost of the GTJC lines.

19. Information conveyed to E.J. McMahon by Ronald E. Nichols, director of private carriers, New Jersey Transit.

20. Information conveyed to E.J. McMahon by Robert Shinnick, Suffolk County’s director of transportation operations, in July 2002 interview with the authors.

21. Most of Suffolk’s buses are 30- and 35-foot models rather than the full-size 40-foot buses used in New York City, but the operating costs for the smaller models are not significantly lower—and the principal expense in all bus systems remains labor.

22. “Contracting out for Bus and Demand Responsive Services: A Survey of U.S. Practice and Experience,” Transportation Research Board, National Research Council, Special Report 258, National Academy Press, Washington, D.C., 2001, pp 19.

23. New York City Independent Budget Office, op. cit.

24. As defined by Cyril Northcote Parkinson, a British academic and keen observer of bureaucratic organizations best known for his satiric dictum that “Work expands to fill the time available for its completion.”

25. “Contracting out for Bus and Demand Responsive Services: A Survey of U.S. Practice and Experience,” Transportation Research Board, National Research Council, Special Report 258, National Academy Press, Washington, D.C., 2001, pp 132-133.

26. Ibid., p 133.

27. Roger F. Teal, “Issues Raised by Competitive Contracting of Bus Service in the USA,” presented at the International Conference on Competition and Ownership of Bus and Coach Service: Theredbo, Australia, May 1989.

28. Wendell Cox, “U.S. Public Transport Costs by Metropolitan Area: Competitive Tendering and Non-Competitive,” September 15, 1998, The Public Purpose Urban Transport Fact Book, <http://www.publicpurpose.com/utuscc95.htm#0>.

29. Op. cit. "Contracting out for Bus and Demand Responsive Services: A Survey of U.S. Practice and Experience," p. 9.
30. Ibid.
31. Jonathan Richmond, "The Public Provision of Private Transport," A. Alfred Taubman Center for State and Local Government, John F. Kennedy School of Government, Harvard University, 2001, p. 54.
32. Ibid., p. 53.
33. John O'Leary, "Comparing Public and Private Bus Transit Services: A Study of the Los Angeles Foothill Transit Zone," Reason Public Policy Institute, Policy Study No. 163, July 1993, p. 1.
34. Since renamed Transport for London.
35. "London: Transport Bus & Underground Annual Costs from 1985," Wendell Cox Consultancy, at [www.publicpurpose.com/ut-lon\\$.htm](http://www.publicpurpose.com/ut-lon$.htm).
36. "Comparative Transportation Studies: What Have We Learned?", *New York Transportation Journal*, Volume V, Winter/Spring 2001, p. 3.
37. Information on London operating expense trends and fare-box recovery ratios provided to E.J. McMahon by the office of Peter Hendy, managing director of surface transport, Transport for London.
38. Data provided by Danish transit officials interviewed by E.S. Savas.
39. Wendell Cox and Brice Duthlioni, "Competition in Urban Transport: A World View," presented to the 7th International Conference on Competition and Ownership in Land Passenger Transport (Thredbo 7), Molde, Norway, June 2001, pp 14-15.
40. Congress originally inserted Section 13(c) in the 1965 mass transit law with the intention of protecting unionized employees of bankrupt private companies taken over by municipalities—many of which, unlike New York, had not yet granted collective bargaining rights to their workers.
41. "Transit Labor Protection—A Guide to Section 13(c) Federal Transit Act," Transit Cooperative Research Program, Legal Research Digest, June 1995, p. 21.
42. At one point during the strike, a majority of City Council members endorsed a non-binding resolution calling for employees of the franchised companies to retain all of their wages, benefits and pensions when the services are put out to bid.
43. Ibid., p. 24.
44. Ibid., p. 23.
45. Ibid., p. 24.
46. New York State Public Employees Federation, "Privatization: A Fight-Back Handbook," at <http://www.pef.org/privaprevent.htm>.
47. Las Vegas is the largest American urban transit systems whose entire bus service is provided by a private carrier under a single, competitively bid contract. Bus operating costs in Las Vegas are among the lowest in the country as a result, as reflected in Table 1. However, such an approach seems highly impractical and inadvisable for the much larger, more diverse and heavily used New York system.
48. As with any MTA operational or policy change, competitive contracting could be subject to a state legislative override.
49. Based on fare and ridership data, such routes would include the Q-42, Q-26, Q-3, Q-14, Q-74, Q-75, Q-76 and Q-77 lines in Queens, and the S-42, S-44, S-51, S-52, S-55, S-56, S-57, S-60 and S-61 lines in Staten Island.
50. A study by the McKinsey consulting group estimated that the cost per ride on NYCTA's late night service exceeded \$31. See *Enhancing Economic Performance*, First Phase Summary, Report of the Joint TA/McKinsey Team, October 19, 1990, pages 36, 37C.
51. Nick Newton, "Competitive Tendering: The London Experience," presentation to the Third International Conference on Ownership in Public Transport, Toronto, September 1993.
52. Wendell Cox and Brice Duthlioni, "Competition in Urban Transport: A World View," presented to the 7th International Conference on Competition and Ownership in Land Passenger Transport (Thredbo 7), Molde, Norway, June 2001, p 14. See also "London: Transport Bus & Underground Annual Costs from 1985," Wendell Cox Consultancy, at [www.publicpurpose.com/ut-lon\\$.htm](http://www.publicpurpose.com/ut-lon$.htm).
53. Based on fiscal year 2000 costs, as reported in the National Transit Database, inflated at a rate equal to subsequent contractual labor cost increases, which brings the estimated total to \$1.4 billion.

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