



PENNDOT: Privatization Could Reduce PAT Costs

In our previous *Policy Brief* we examined the Pennsylvania Department of Transportation's (PENNDOT) report on whether consolidation of mass transit agencies in southwestern Pennsylvania would make sense. Under Act 72 of 2013, PENNDOT was directed to look at that subject as well as privatization as ways to increase revenue and lower expenses.

The critical finding that comes from PENNDOT's privatization study is one that the Allegheny Institute and its readers have known for a long-time: "a comparison of [the Port Authority's (PAT)] cost structure to fully privatized systems, partially privatized systems, as well as publicly operated systems, is the same in all three cases. [PAT's] cost to deliver bus service is higher than other systems regardless of how the service is delivered". An Institute *Brief* from November of 2004 ran a comparison of PAT against 22 other cities on operating costs per passenger and other indicators (see *Policy Brief Volume 4, Number 44*) and several pieces since then have demonstrated the high cost structure at the Authority.

So, if PAT is more expensive than other systems that are either fully privatized, partially privatized, or fully publicly operated, how do we know that embarking on privatization will save money? That is essentially the question posed by PENNDOT in its study. It notes "there is a wide range of management tools available for [PAT] to control costs—privatization can be one of those tools".

The study points out that there are different methods to privatizing mass transit service. Many with long-memories in this corner of the state would point out that private carriers went bankrupt, PAT stepped in, so why go back to private mass transit? But private operations could come from outsourcing all operations or portions of operations (the way PAT does now with demand-response service). Several local transit agencies also outsource major portions of their operations.

As with consolidation, there are challenges for privatizing PAT's operations: most notably the Federal requirement known as Section 13c, which we have written about before and pertains to Federal funding and transferring or outsourcing work. PENNDOT's study describes 13c as "...the greatest single barrier to transitioning to a

privately operated service model that could realize significant cost savings”. Our 2007 report on reforming PAT contains a lengthy discussion of 13c provisions (see *Report #07-04*). The Federal requirement effectively prohibits transferring operations to another provider if that transfer results in the firing of employees. PAT would be required to provide several years of severance pay to any laid off employees.

So how does a mass transit provider transition to a model where it can contract out operations without running headlong into this Federal requirement? The report offers these seven options based on interviews they conducted with agencies in cities including Los Angeles, Minneapolis, San Diego, and Denver:

1. Attrition was utilized with new hires being frozen (the Institute recommended this idea several years ago)
2. State legislation supporting and/or requiring privatization was in place (such was recommended to transit authorities by the Governor’s Task Force in 2006)
3. New service was introduced and outsourced
4. Routes that were privatized prior to the formation of the agency continue to be privatized
5. Swaps were implemented between publicly operated service and outsourced service
6. An agreement was reached with bargaining units
7. A new regional authority was formed, distinct from one or more of the local organizations responsible for operations

One could see the possibility of Pennsylvania adopting a Colorado-type law for PAT where the state mandates that a certain percentage of “rubber tire” service be outsourced, or the state could create a multi-county authority that does not directly operate service but instead provides buses and routes for bid or at low cost for its soon to be underutilized equipment and the state and local subsidies go to those winning bidders.

But there is a substantial opportunity presenting itself to PAT through a combination of approaches 1 and 3. That would include outsourcing all additional service that will be started up as a result of the Act 89 funding windfall. That would mean a hiring freeze and putting new routes out to bid with the winning bidder taking the responsibility for operator pay and benefit levels from the funds it would receive through its PAT contract. The state is willing to subsidize mass transit. There is no reason the funds should not be used more efficiently.

The hiring freeze would not cause any current employees to lose their jobs involuntarily and therefore would not run afoul of 13c stipulations. It would be very different from 2011 when PAT discontinued service and two of those routes were given over to a private operator as opposed to being outsourced with PAT paying the operator.

PAT can make outsourcing work if it has the courage and stamina to do it. Announce a hiring freeze now and commit to outsourcing routes as attrition opens up opportunities to move toward reduced employment on PAT payrolls. PAT could thereby reduce the

burden to taxpayers on legacy costs along with its extraordinarily high compensation costs. Indeed, in addition to private companies, transit agencies in surrounding counties should be allowed to bid on the routes to be outsourced. Carried out long enough, this methodology could lead to as much as 30 percent or perhaps even more bus service being operated by much lower cost producers.

In this environment it could become easier to gain concessions necessary to bring PAT into line with national average figures for compensation and work rules. Indeed, it might be possible to get the union to accept the use of smaller buses so that PAT could have more flexibility in creating feeder operations that would further reduce costs associated with running large buses nearly empty for major portions of routes. Or said another way, it would give the management and board the kind of managerial discretion needed to build a very efficient and cost effective system.

However, given the board's unwillingness to even ask basic questions about the need, advisability and economic justification for offering free rides on the North Shore Connector runs, the prospect of their seeking something as dramatic as outsourcing bus service would appear to be non-existent.

Jake Haulk, Ph.D., President

Eric Montarti, Senior Policy Analyst

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
