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Denver's Solution for Mile High Transit Costs

As the Governor's special task force on mass transit prepares to convene, the overarching objective for the appointees should be to develop ways for Pennsylvania to adequately fund a cost-effective, efficient transit for workers, the poor, and the transit-dependent. The task force must not only address funding, but also recommend changes that will ensure cost-effective service for users and taxpayers who fund a large share of mass transit's operating and capital costs.

The Allegheny Institute has demonstrated time and again that the Port Authority is not cost-effective or efficient. In terms of operating costs and compensation, the Authority does not stack up well with comparable systems around the country. What's more, its passenger counts have been declining for many years. While some argue the Port Authority's problem is inadequate funding, we argue that it would be highly imprudent to grant more dollars to the system without a requirement that costs be reduced and efficiency increased.

One way to lower costs substantially at the Port Authority and other transit systems in the state would be to institute competitive contracting for portions of its fixed bus route service. Several cities across the country--including Indianapolis, Las Vegas, Houston, and San Diego--contract out some portion of their bus service. There is an established and successful blueprint in place for this type of managed competition in Denver.

A 1988 Colorado law directed Denver's Regional Transportation District (RTD) to solicit bids from private contractors to provide 20 percent of its fixed route bus service. Subsequent amendments have raised the level of required contracted service to its current 50 percent and expanded it to all vehicular (non-rail) service the District provides.

RTD oversees the contracting of services by establishing the standards of service contractors are to meet. Through a request for proposal system, the RTD specifies the routes, maintenance requirements, leasing of vehicles, and other details to guide potential contractors in preparing their bids. Measured in terms of service provided and operations, results of the outsourcing program have been impressive.

As of January of this year, private companies were providing over 40 percent of the annual total hours driven by buses in the RTD service area (over 1.1 million of the total 2.6 million hours driven). Three companies provided the service by leasing 362 of the District's 1,072 buses. In the first eight years (1988-1996) of competitive contracting, bus boardings in the RTD increased 28 percent--the largest increase among the nation's 25 largest transit systems, which averaged a 13 percent decrease in boardings. Over that same time frame, boardings at both the Port Authority and SEPTA decreased 17 percent.

Currently, contractors in the Denver program are providing service at an operating cost that is \$25 less per hour than the RTD. In the fourth quarter of 2004, RTD's total costs (operating and facility) stood at \$82.05 per vehicle hour while average contracted total costs were \$56.68. Similarly, costs for RTD drivers and mechanics are much higher than costs for personnel at the contracting companies. The starting hourly wage for a full-time RTD driver was \$13.69 while a similar contracted wage was \$11.50, more than two dollars less. At the top end a RTD operator would make \$18.05, more than \$2.50 above the top wage for a contracted driver.

According to the RTD official who oversees the contracting program, RTD operator and mechanic wage rates for new hires step up much faster than the wages paid by contractors. Then too, differences in work rules and benefits between the RTD and the contractors add significantly to the gap in hourly operating costs. Obviously, adopting the Denver program in Allegheny County could lead to significant cost savings at the Port Authority, whose drivers make near the top of the average pay scale for transit systems across the nation at \$21.25 per hour.

The contracting program has certainly helped control costs at the RTD. A 1999 study estimated that the RTD saved in the range of \$191 million to \$378 million over the first eight years of the program. The lower figure is based on RTD costs rising at the rate of inflation. The higher figure is based on the assumption that RTD costs would have risen at the same pace they did from 1979 to 1988. Currently, the District is saving at least \$30 million per year through the contracting program. The savings are likely to be even larger depending on the extent to which the contracting of service is holding down costs at RTD.

How could this plan be carried out in Pennsylvania? In the case of the Port Authority, it would require a simple amendment of the Second Class County Port Authority law. The revision of the law would require the Authority to seek bids from responsible private carriers to handle a percentage of bus routes, as measured by an indicator such as hours of service or passengers carried.

In short, competitive contracting ought to move front and center as a major element in reforming mass transit funding and operations in Pennsylvania. It has delivered considerable savings and improved service in Denver, and there is every reason to believe it would do the same here.

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