CONTRACTING FOR PUBLIC TRANSIT SERVICES IN THE US: EVALUATING THE TRADEOFFS

A synthesis of research done at the University of California

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SUMMARY

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1. INTRODUCTION

When considering public transit, travellers typically judge whether it serves desired destinations in a timely manner and at a reasonable cost – often in comparison to travelling by private vehicle. How public transit agencies choose to operate their services – their networks, service frequency, and fare structures – to compete with private vehicles, and provide mobility for those without them, is the subject of this synthesis. Specifically, this synthesis examines the "make" or "buy" decision in public transit: should government agencies operate (make) transit service directly, or does it save money to contract with private firms (buy) to operate transit service? The latter option is often called "contracting out" or, less accurately, "privatisation".

Whether to make or buy transit service has fuelled highly charged political debates that frequently cleave along partisan lines. Liberals often favour direct public provision of government services, and fear that contracting with private firms for service usually hurts labour. Conservatives tend to favour competitive procurement of goods and services, and assert that contracting for transit service is almost always more efficient than direct government provision. However, the issues at stake are far more subtle and complex than these competing perspectives, which are often depicted simplistically at public meetings and by the media.

This synthesis aims to bring both nuance and rigour to bear on what can be noisy ideological debates over the costs and benefits of contracting out for transit service. It summarizes a series of recent studies conducted by researchers at the University of California[1]. The focus of this report is on bus transit, which carries more passengers than any other transit mode (i.e. subway, trolley, van, etc.), operates on fixed routes and schedules, and in mixed traffic on local streets and freeways[2].

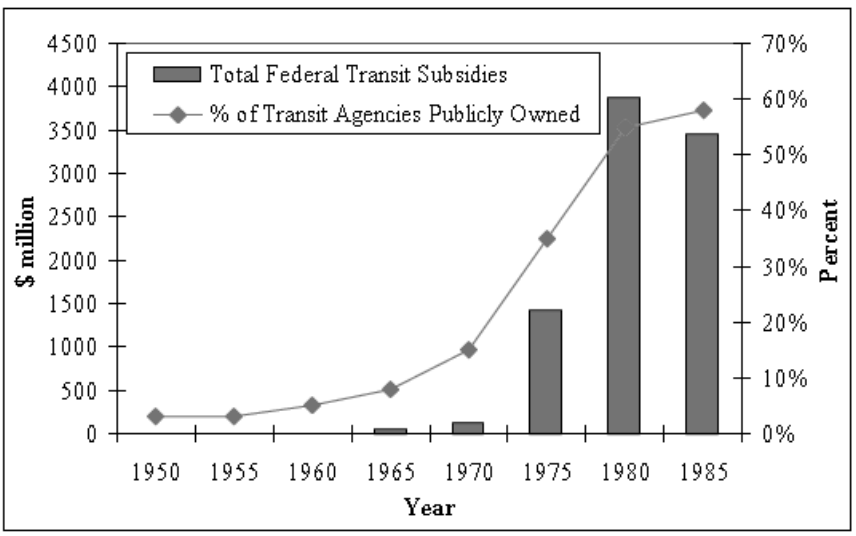
In the United States, the term "contracting out" is generally used when a public transit agency procures the services of a private firm through a competitive bid process. The contracted service may be for a portion of the system, such as a bus route, or system-wide. The transit agency typically maintains ownership of the service and authority over setting policies, such as fares and schedules. This system contrasts with full privatisation efforts, such as those in the United Kingdom, where private firms own and operate public transit service (Iseki, 2004, 3-8). Private contracting is used also for transit maintenance and transportation infrastructure provision (mainly road and rail construction and street maintenance). Similar to transit service contracting, private infrastructure provision has generated controversy and debate over perceived benefits and challenges.

Parts 1 and 2 of this synthesis present the background on public transit provision over time, with a focus on today's context. Part 3 analyzes and interprets key findings from a series of University of California studies of transit contracting. Part 4 considers the reasons contracting for transit operations has been chosen in practice, as well as its effects on the travelling public, transit operators and transit workers. Part 5 offers general guidelines for situations in which contracting has proven most promising and when it is less useful. Finally, Part 6 concludes with more specific recommendations.

2. TRANSIT HISTORY IN BRIEF: AN EVOLVING TALE OF PUBLIC AND PRIVATE SERVICES

The private provision of transit services in the United States has a far longer legacy than many might imagine. With but a handful of exceptions, private for-profit companies provided transit service from the mid-19th Century to the mid-20th, initially with horses and cable cars, and later with streetcars, subways and buses. Rapid growth in automobile use, especially after the First World War, combined to both lure disproportionate shares of shopping and recreational trips away from public transit and to congest the streets on which streetcars and buses operated. The public's increasing appetite for automobile travel, among other reasons, fuelled major declines in transit patronage and associated fare revenues. As a result, private companies began cutting service, delaying track and vehicle maintenance, and in many places ceasing operations altogether. In response, local governments in many cities stepped in to fill the void by taking over bankrupt, and often decrepit, transit systems. In some cases, cities and counties operated service through their transportation divisions, and in others regional transit agencies were established. While local government leaders in older, larger cities had long recognised the importance of public transit service to metropolitan life, it wasn't until the 1960s that the federal government began to assist in the subsidy of public transit (see Figure 1) (Iseki, 2004, 11-25).

Figure 1. **Trends in Contracting Transit Services and Federal Funding**



Source: Iseki (2004), 25.

From modest beginnings in the 1960s, federal subsidy of local transit systems (mostly by underwriting capital expenditures, but increasingly to support operations as well) mushroomed in the 1970s and 1980s. While the extent and frequency of public transit services increased during this period, transit service costs grew even faster, outpacing the then high rates of inflation. Concern with rapidly increasing subsidy obligations led the Reagan Administration and some members of Congress to call for public transit authorities to put more services out to bid for private companies to run, in an effort to save money. The rationale was that private entities could offer services at a far lower cost because: 1) competition would be generated among prospective bidders, and 2) the high costs of unionised public sector labour could be reduced by both paying lower wage and benefit packages and by easing work rule restrictions. In response, many public transit systems did turn to contracting out all or at least part of their services to private companies. In California, 68% of the 65 agencies included in the National Transit Database[3] contract some fixed-route service; total expenditures for this contracted service was USD 227 million in 2002 (Iseki *et al*., 2006, 1). Nationally, over one-third of all NTD reporting agencies in 2001 contracted for some services; total expenditures on these contract services was approximately USD 1.4 billion (Iseki, 2004, 45).

3. WHAT MOTIVATES TRANSIT SERVICE CONTRACTING TODAY?

We now turn to the issue of transit service provision today. First, we explore the ways that service has been contracted out, as well as some motivations for doing so. Then, we examine the consistencies and contradictions between these stated motivations and the research results from several University of California studies.

Public transit operators contract for service in a myriad of ways. Some contract for all of their service from private companies, while others only contract out a portion of service. Still others do not contract for service at all. As a result, private contract service provision is not simply an "either/or" option. What explains why public transit systems contract for all, some or none of their service? Iseki *et al.* (2006) found that transit agency size and age frequently affect the amount of service contracted out. They found that new, smaller agencies covering just a city or part of a county are more likely to contract out all services, while larger, older agencies are more likely to contract out only a portion of service. This is because: 1) older agencies often have long histories of public provision of services by unionised public employees; and 2) political battles would likely ensue if such systems were to move toward contracting with private companies for service.

As a result of these general patterns in contracting, some common perceptions of the costs and benefits of contracting have gradually emerged. Most common is a focus on costs: "*The primary goals of contracting out public transit are to reduce operating costs and to improve efficiency* (Kim, 2005, 178)." Under the rubric of costs savings, contracting is touted by proponents as having three principal effects:

- *Takes advantage of labour cost differences* between the public and private sectors, in which the hourly rate of private employees may be less than the unionised labour of a public agency. Labour costs in transit are typically 70% of total costs, and a reduction in labour costs can have significant cost implications for the bottom line (Iseki, 2004).

- *Generate competition* between private bidders for services and engender the "threat of competition" to public employee unions who may be more willing to accept changes to driver compensation packages if contracting services are under consideration (Kim, 2005, 14-15, 84-85; Iseki, 2004; TRB, 2001). Alternatively, competition may occur when a regional authority requests its public agency to partake in a competitive bid process against private firms to operate services.

- *Increase larger transit agency efficiencies* when less efficient services are contracted out. Such a service might include a newly established long distance suburb-to-downtown bus line. This type of service typically operates during the morning and evening for commuters travelling to work and often has few midday riders. In this case, it is often suggested that the service should be contracted out to a private firm who could hire drivers to work "split shifts" to cover the morning and evening commutes, a type of work scheduling arrangement which may be prohibited by a public agency's existing labour union contract. (A split shift driver would work four hours in the morning and then four hours in the late afternoon without overtime compensation, rather than a "straight shift" of eight consecutive hours.)

Beyond these three principal goals, another often cited is that contracting out can provide additional *flexibility in how services are provided*, particularly when a transit agency would like to test out a new service for a limited amount of time to determine its viability before hiring new public employees for it (Iseki *et al*., 2006). Contracting out also has been viewed as advantageous when new services need to be established quickly, on the assumption that private firms can mobilise faster than a public agency to implement them (Iseki *et al*., 2006).

4. UNDERSTANDING THE GOALS OF AND MOTIVATIONS FOR CONTRACTING

Has contracting for fixed-route bus service delivered on promised cost savings and increased operational efficiencies? This section reports on some surprising discoveries about such service provision, after beginning with a brief review of research methods and data used to study the issue.

4.1. Research methods and data

The research described in this report endeavoured to employ rigorous social science techniques to analyze both quantitative and qualitative data, including frequency distributions (to analyze the extent of contracting out and other transit agency/service characteristics) and multiple regression analyses (to assess the relative relationship and significance of key variables). One study used a case study approach to examine a range of public and private transit operators, and the effects of contracting out on labour compensation among other issues (Kim, 2005). Another study interviewed management-level representatives at thirteen transit agencies in California to evaluate their service provision decisions and strategies (Iseki *et al.,* 2006). The quantitative data were largely culled from the National Transit Database, which provides extensive annual information on transit agencies and services and is maintained by the Federal Transit Administration, which is part of the United States

Department of Transportation. Additional data on unionisation rates, political/institutional and economic/financial factors, and geographic areas also were gathered from other sources, such as the federal Bureaus of Census and Labour Statistics and the American Chamber of Commerce Research Association.

4.2. Effects of contracting out on transit service provision

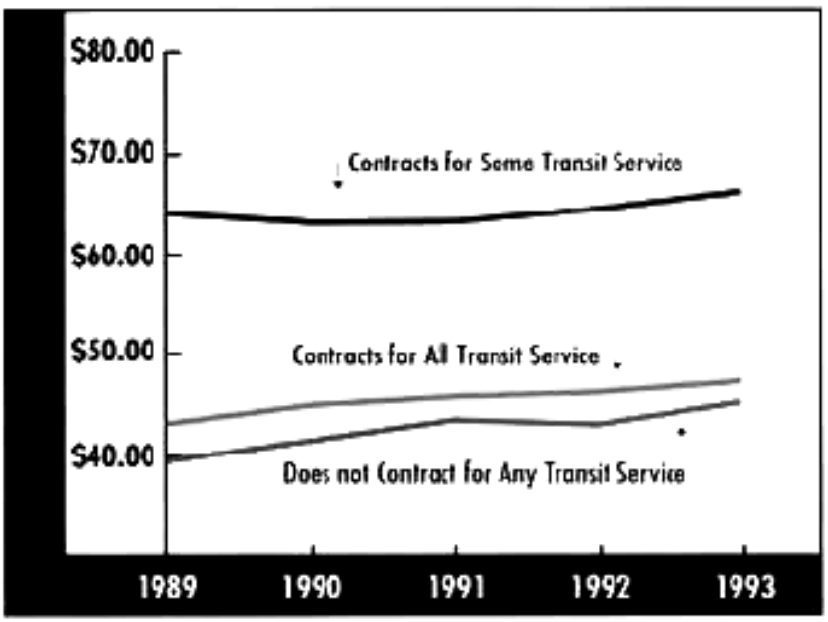
This section will first consider the impact of contracting out with respect to claims made about its potential to improve service efficiencies. Then, it will examine the impact of such provision on the compensation levels of workers who provide the service.

4.2.1 Impacts on Efficiency

The major efficiency gains claimed by vocal privatisation supporters are improvements in cost efficiency – measured, for example, by comparing costs per service hour among service providers. While useful, such comparisons don't tell the whole story – vehicle and labour productivity are important measures as well. Agency characteristics and service levels importantly affect cost savings. In particular, it is important to distinguish among agencies that contract for all, some, or no service, and to be clear on whether total costs or contract-only costs are being compared (Iseki, 2004; McCullough *et al*., 1997).

McCullough, Taylor, and Wachs (1997) determined that vehicle productivity and labour utilisation were better measures of the efficiency improvements that could be realised with contracting than common cost-efficiency measures like cost per service hour. "Vehicle productivity" refers to how intensively transit vehicles are patronised and the miles they log travelling from place to place without passengers, known as "deadheading." The miles travelled from the garage to the start of a route, between the end of service on one route to the beginning of service on another, and back to the garage at the end of a shift are all examples of deadheading. Vehicle utilisation is also affected by service area characteristics, such as where buses must traverse long distances in sparsely populated areas or where a transit agency must cover a large, expansive service area with minimum levels of service. According to McCullough, *et al.* (1997, 22), "Often it is the provision of service to difficult areas (and) restrictive work rules that contribute most directly to increased operating costs." Their study examined 142 bus operators nationally between 1989 and 1993 and found that that agencies that did *not* contract out any service had the *lowest* operating costs, followed by fully contracting agencies. Curiously, agencies that contracted out a portion of service had the highest cost per revenue hour. The difference between agencies that did not contract any service and those that fully contracted out was USD 5.64 per hour in 1990 (see Figure 2). Why were the costs at agencies that contracted for some of their service so much higher? The authors hypothesised that a self-selection bias may have influenced these results, because transit operators with very high costs would be likely begin contracting for some of their service in an effort to control high costs. In other words, contracting for some service did not cause high costs; rather high costs motivated contracting.

Figure 2. **Operating Costs by Type of Transit Agency**



Source: Figure 1 in McCullough, Taylor and Wachs, *Access*, 1997, 25.

Building on McCullough *et al.*'s full, partial, and no contracting framework, Iseki (2004) found that contracting for transit service, on average, yielded modest cost savings – more savings than argued by many critics of contracting, but far less than savings of 40% or more touted by contracting proponents. In this study, Iseki examined 400 agencies nationally over a nine year period, from 1992 to 2002. Given average vehicle operating costs per hour of USD 53.06, he found:

- Partial contracting savings averaged USD 4.09 per vehicle hour over directly operated service (a 7.8% cost reduction);

- Full contracting savings averaged a modest USD 2.89 per vehicle hour over directly operated service (a 5.5% cost reduction).

Employing different methods, Nicosia (2002) found that contracting may lead to a 15-19% reduction in system operating costs. Nicosia also found that public agencies are more likely to contract in areas with higher public sector unionisation rates, as are larger agencies that have higher average costs mainly due to higher wage rates. In noting that Nicosia estimated larger contracting cost savings than his study, Iseki noted that Nicosia's analysis did not include several factors thought to importantly influence transit costs, such as (1) the number of extra vehicles needed to provide peak commute service (measured as the "peak-to-base ratio"), (2) vehicle utilisation efficiency (measured as the "pay-to-platform ratio"), and labour productivity (measured as paid worker hours to transit service hours) (Iseki, 2004). Nicosia was, however, with the first to account for selection bias; that is, transit agencies with good reason to do so are more likely to pursue contracting, while agencies efficiently delivering service directly are less likely to contract. We cannot conclude, in other words, that because contracting has worked well for some transit agencies, it will necessarily work well for most or all agencies.

In addition to the self-selection issue, Nicosia also found that contracting had a negative effect on transit service quality and service; in her sample of approximately 320 transit agencies, she found that contracted service had higher rates (by 70%) of vehicle collisions, and more vehicle breakdowns (by 36%).

4.2.2 Impacts of potential efficiencies on labour

Although much debate and research on transit contracting has centred on questions of efficiency, an underlying issue is how contracting affects transit workers. These workers provide day-to-day services to the travelling public, and include bus drivers, schedulers, maintenance crews, service managers, and others out in the field. The main questions raised generally are:

- When services have been contracted out, how are private workers compensated in comparison to public unionised workers?

- If savings have occurred, have these been generated primarily through reductions in private sector wages and benefits packages?

To address these questions, Kim (2005) undertook the first comprehensive study of the influence of service contracting on transit workers' wage and benefit packages. Labour utilisation and cost efficiency also were considered by Kim in her case studies of twelve U.S. transit operators during the period of 1995 to 2001.

Worker Compensation

With respect to how labour is compensated, Kim states,

> *"Overall, private contractors were paid 52% less [than comparable public employees] in driver compensation, while their hourly operating costs were 43% less. In sum, it appears that cost savings from contracting were achieved at the expense of labour, but not necessarily with an increase in genuine productivity* (Kim, 2005, p. 2)."

For hourly rates, Kim found that drivers at private bus operators were paid between USD 10 and USD 11 per hour, which was USD 6 to USD 8 less per hour than drivers at public agencies in 2001. This difference in hourly rates translated into USD 10 000 to USD 12 000 annual earnings less per full-time worker. Private sector drivers also received approximately USD 12 000 less in average annual benefit packages. Finally, with respect to paid absences, such as holidays and vacations, private sector drivers received compensation for only 15 days annually; whereas, public agency drivers received it for 52 days. Overall, Kim found that, in comparison to their public counterparts, private drivers' hourly rates are 38% lower, annual earnings 34% lower, and benefits 58% less.

Transit Operator Productivity and Practices

In addition to compensation packages, Kim also evaluated transit operator productivity and practices; in particular she analyzed the extent to which they used part-time drivers and whether they incurred additional expenses resulting from contracting, such as contract monitoring and compliance.

Kim found that the private sector transit providers in the study incurred higher costs on several important items, namely overtime compensation, insurance fees, and driver training programs. With respect to overtime, the typical private sector driver worked 100 to 200 hours more annually than

public agency drivers, though often for less total compensation. Private operators also incurred higher costs for insurance (such as worker's compensation and liability) and driver training programs, because they tended to have higher driver turnover rates and poorer safety records.

Another long debated transit contracting question is whether private operators have more flexible work rules and employ more part time drivers, for example, to cover additional service during peak times or to eliminate the "split shift" problem previously discussed. Surprisingly, Kim found that part-time drivers constituted only 2% of the private drivers, compared to 11% in the public sector[4]. This finding – of fewer part-time drivers among contract operators – observes Kim, "*is the opposite of the transit-contracting advocates' belief that private operators can be more flexible due to fewer restrictions on their use of part-time employees* (Kim, 2005, pp. 114-115)."

Kim also found that four out of five private contractors examined actually had higher costs than their public counterparts due to work rules – another result that differs from conventional wisdom[5]. The higher spending among private contract operators is due mainly to overtime compensation and non-operating paid work time (for example, stand-by times and new driver training time). Concludes Kim, *"*(T)*he critical implication* (is) *that private bus operators do not enjoy more flexible work rules for drivers, and they are not inherently more efficient* (Kim, 2005, p. 114)."

Further, the private contractors she examined were found by Kim to be more inefficient with respect to non-labour-related expenses, such as vehicles, fuel, maintenance, insurance fees, administrative staff, overtime and training. As a result, the majority of private operators had higher non-labour operating costs than public agencies. Thus, in contrast to privatisation proponents who have derided public transit agencies as inefficient in their use of labour and capital, Kim found that private-sector cost advantages were due primarily to lower wage and benefit rates, and better utilisation of workers and vehicles. As a result, some public agencies examined by Kim made better use of labour and equipment and, as a result, were as efficient as private operators, even when saddled with substantially more expensive compensation packages.

Policy Implication: These studies on efficiency, labour and work practices collectively suggest that contracting out transit service is not always as efficient as privatisation supporters have purported it to be. In fact, some public agencies are more efficient in their use of workers and vehicles than their private counterparts. Cost savings with contracting appear to accrue primarily from lower driver salaries and benefits, which are negatively related to some measures of transit service quality.

5. REASONS FOR CONTRACTING IN PRACTICE AND ITS EFFECTS

Why do some transit agencies pursue contracting, while others do not? The research to date suggests that transit agencies have tailored contracting out to meet their specific needs and goals. These include:

1) *Accommodating agency size and resources*: Transit agency size strongly influences the likelihood of contracting out service. Smaller agencies are more likely to fully contract out services because they do not have in-house expertise readily available and/or want to avoid negotiations with labour unions. Larger operators tend to contract out only a portion of service, and a small percentage (roughly 8%) at that (Iseki, 2004).

2) *Gaining benefits from lower private sector wages*: Agencies in areas where there is a wage gap between public and private sectors have sought to take advantage of these savings by contracting out (Iseki, 2004; Nicosia 2002; Richmond, 2001; TRB, 2001).

3) *Improving vehicle utilisation*: Contracting has been used for operating special peak/commuter services as well as demonstration and temporary services, when vehicles and publicly employed drivers are already fully committed to providing service. Contracting has also often been used on inefficient lines, such as long-haul commuter lines or low-ridership lines where small vehicles may be appropriate (Iseki *et al*., 2006; TRB, 2001).

4) *Increasing labour productivity through adjustments to work rules*: Some public operators hope to gain efficiencies in work rules and related compensation expenses (such as reduction in overtime compensation for split shifts; removal of part-time worker restrictions; time to reach the highest wage rate; and the use of smaller vehicles, operated by drivers who are not qualified to drive regular buses but who may drive small vehicles) (Iseki *et al*., 2006). While Kim finds that not all private operators have more flexible work rules, particularly related to part-time drivers, and they may pay more in overtime, selective use of service contracting may increase *overall* (combined public and private) vehicle and labour utilisation.

Given these motivations to contract for transit service, the studies summarized here paint a sometimes jumbled picture of the outcomes:

- *Cost efficiency*: Contracting has not been as cost efficient as privatisation supporters have claimed; however, the "threat of competition" may increase in-house efficiency (Kim, 2005).

- *Wage/compensation packages*: Private transit labour consistently earns lower wages and earns fewer benefits in comparison to comparable public sector employees (Kim, 2005).

- *Utilisation of vehicles*: Contracting may improve overall vehicle utilisation rates, particularly for large transit agencies that partially contract service. However, transit

agencies also can make operational changes, such as interlining, routing adjustments or relocation of vehicle maintenance and storage facilities, to reduce situations in which buses are operating without passengers (called "non-revenue" service). Changes to work rules can increase labour productivity, such as allowing part-time drivers, reducing overtime compensation for split shifts, and increasing the length of employment time for drivers to reach the highest wage rate (McCullough *et al*., 1997; Iseki, 2004).

- *Labour quality and productivity*: An axiom of labour economics is that lower levels of compensation for a given occupation are associated with higher levels of employee turnover, and the studies of transit service contracting reviewed here bear this out. In transit contracting, this can lead to higher training and insurance costs (Kim, 2005).

- *Service quality*: Most of the previous research on transit contracting has focused on costs and not on service quality. But evidence from the research summarized here suggests service quality may be lower (as measured in terms of crashes and on-road service calls) among low-cost contract operators (Kim, 2005; Nicosia, 2002).

Policy Implication: When transit agencies contract for service, a balancing act occurs between cost efficiency and productivity, driver compensation and the quality of service. The research reported on here finds that the effects of contracting vary depending on how well private drivers are compensated, which can, in turn, affect quality of service. As a result, some transit providers specify in their contracts minimum compensation levels to attract and retain qualified drivers and mechanics. Not all contracting agencies set such standards, but most report that compensation packages are considered in evaluating bids from private firms to operate service (Iseki *et al.*, 2006).

6. GUIDELINES FOR TRANSIT SERVICE CONTRACTING

Given the research reported on here, we offer guidelines below for public officials considering transit service contracting.

6.1. When contracting works well

Transit service contracting has proved most successful when (1) publicly operated service is relatively costly or (2) new or different types of transit services are under consideration.

1. *Improving inefficient services*, such as lines that may be subject to elimination due to high operating costs and/or low ridership (Iseki *et al*., 2006). Even the possibility of contracting may induce increased efficiency among unionised public employees directly providing service and who are interested in discouraging expansion of contract service.

2. *Implementing new special services*, such as peak-period commuter bus lines. New service has proved easier to contract out because it typically does not involve displacing existing unionised workers (Iseki *et al*., 2006).

3. *Testing new lines*, which provides transit agencies with the flexibility to assess service and make adjustments before committing to additional in-house labour to operate the service (Iseki *et al*., 2006).

4. *Launching new lines, expanded service or an entire agency*, when a public agency does not have in-house transit resources or expertise. This can be particularly useful for new or smaller agencies. In the case of contracting all service, contracting may support efforts to minimise the addition of new public staff, avoid unionisation of public employees, or engage in ongoing negotiations with unions.

6.2. When contracting may not work

Contracting for transit services has proved less useful in the following situations:

1. When agencies contract out to *take advantage of the wage gap* between private and public sectors by permitting substantially lower wages and benefits for private sector drivers. This in turn may diminish driver and service quality and increase driver turnover, insurance rates and driver training expenses (Kim, 2005; Nicosia, 2002).

2. When agencies *overlook the longer-term costs of contracting in search of short-term cost reductions*. For example, soliciting and evaluating bids, negotiating contracts, monitoring contracts, and enforcing penalties for non-compliance are all examples of "transactions costs" associated with contracting. According to Sclar (2000), government agencies often overlook estimating costs due to contracting. Such costs must be fully considered to accurately estimate the savings (or costs) of contracting.

3. When *existing and well-utilised, regular in-house bus service* is transferred to the private sector, particularly if that service is already being efficiently delivered by public sector employees. Past research indicates that labour groups will likely oppose such conversion because these services are traditionally their members' core employment and livelihood. In this scenario, it may be more advantageous for an agency to negotiate changes to work rules in order to maximise vehicle and driver utilisation and reduce costs (Iseki *et al*., 2006).

4. When there is an *inadequate number of potential private contractors to bid on service contracts*, particularly if part of the purpose of contracting in these situations is to generate competition among bidders.

6.3. Other considerations

After evaluating these scenarios, if an agency elects to contract some or all service, we recommend that the agency should consider:

- ✓ providing guidelines or setting *minimum compensation levels* related to hourly rates and/or fringe benefits for private sector employees (Kim, 2005; Iseki *et al.*, 2006);
- ✓ examining private contractors' *part-time employee policies*, particularly to see whether these positions are encouraged and how their compensation packages are structured;

- ✓ developing measures *to evaluate contractor performance and service quality*, and making arrangements to regularly monitor these measures (TRB, 2001);

- ✓ cultivating a *competitive bidding environment* to reduce the possibility of one contractor monopolising service provision (McCullough *et al*., 1997);

- ✓ maintaining *open and amicable communication* between the public agency and contractor to facilitate service improvements if needed (TRB, 2001).

Finally, if an agency elects not to contract out service, the following strategies may be useful to improve service provision, whether implemented individually or as a comprehensive package:

- ✓ Seek *changes to labour agreements* related to work rules and compensation, such as the allowance for split shifts without excessive overtime penalties; interlining; part-time labour; other overtime compensation reductions; and changes in salary scales (including the addition of extra pay grades to reach senior level) (Iseki *et al*., 2006);

- ✓ Adjust *vehicle routing and scheduling* to reduce the amount of time vehicles are in non-revenue service, as well as using more efficient vehicles, such as smaller buses and vans, for services whose ridership levels do not require the standard, larger bus;

- ✓ *Relocate vehicle storage and maintenance facilities and layover locations* to bring facilities closer to actual service if feasible and not too cost-prohibitive.

7. RECOMMENDATIONS

Contracting for transit service is one of many options public agencies have to improve service and cost efficiency; other options may be more appropriate in certain contexts. So how can governments facilitate enhancements to transit service provision while ensuring quality work environments? We recommend the following:

First, transit planning requires tailoring services based on individual agency characteristics and needs, as well as political and equity considerations. As a result, statewide (in the US) or national (in Europe) legislation or policies *requiring* the contracting out of transit services (as has been done in Colorado and Massachusetts) is *not* recommended. There is simply no evidence to support the assertion that contracting for service will always be more cost-effective. Nor does the research support the conclusion that states or nations should promulgate legislation prohibiting or hindering transit agencies from contracting for service, if local conditions warrant such a move.

Second, information on contracting best practices should be developed and distributed to increase awareness of the advantages, challenges and obstacles to effective service contracting. These materials would include: fact sheets; case studies, written in straightforward language, featuring best practices of agencies that contract out transit service, as well as those that do not; examples of model work rule agreements and minimum employee compensation policies, as well as contracts with private transit contractors; and a contact list of accessible practitioners and others involved in innovative transit service provision. In the US, we recommend that states collaborate

with the United States Department of Transportation through the Federal Transit Administration, the Transportation Research Board's National Transit Cooperative Research Program and/or the American Public Transit Association, to host workshops and provide additional examples.

Third, states (in the US) and national governments (in Europe) should consider developing a "seed" planning fund program for public transit providers to pursue public processes to investigate transit service provision enhancements. The program's purpose would be to develop short- and long-term transit service strategies and plans. These funds would provide the extra incentive to transit providers to conduct additional planning beyond their regularly scheduled planning activities, such as their short-range transit plans. These planning efforts would identify and examine the full range of service options, including contracting out as well as changes in vehicle utilisation (such as routing and scheduling) and work rules.

Grant recipients would consist of mainly public transit service providers; however, regional transportation agencies might also be eligible if they were interested in developing guidelines and incentives, and identifying areas of opportunity for service efficiencies and co-ordination. As part of the planning effort, grant recipients would be expected to develop an implementation plan as well as monitoring, oversight and evaluation plans.

To encourage broad participation, program funds may be used to cover facilitation costs for discussion sessions between key stakeholders, such as transit agency board members and staff and representatives from the public, labour and the private/non-profit sectors. Lastly, it is very important that sponsoring agencies' overall monitoring and evaluation plans assess the short and long-term impacts of the seed funding program. The purpose of the evaluation would be to advise the sponsoring agencies regarding transit successes and failures with respect to the provision of innovations in transit service, to measure progress and problems and to recommend modifications to the program as needed.

Fourth, thoughtful investigation of this important public policy issue should be continued. Additional research is recommended as follows:

- Assessments of efficient, high-quality transit providers to highlight actions and strategies they have pursued to achieve such noteworthy service. An effort should be made to include a wide range of providers who operate in urban, suburban and rural contexts.

- Analysis of the equity implications of contracting out and other cost efficiency/ productivity measures. In other words, who benefits when there are cost savings? Are these savings used to improve operations, provide more service, increase driver compensation, maintain tax/fare levels, or for other purposes? (Iseki, 2004; Kim, 2005).

- Documentation and analysis of labour, transit user and private sector perspectives on transit service provision. Most interview-based research to date has been with transit agencies and few, if any, interviews have been conducted with representatives of labour, the private sector, or transit users. Future research should include these constituencies to provide a more comprehensive range of perspectives.

- Comparative assessment of the relative influence of various service provision strategies (contracting out, part-time labour, changes in compensation packages or work rules, service adjustments, location of vehicle storage and maintenance facilities, etc.) on transit efficiency and productivity. Much research tends to focus on the impact of contracting out

on cost-efficiency in isolation. Additional analysis is needed that compares individual strategies or packages of strategies.

- Analysis of capital cost savings or efficiencies, if any. The research to date has largely focused on operating costs and has not undertaken in-depth analyses of whether contracting out may be useful to reduce capital costs.

NOTES

1. These analyses were funded through the University of California's California Policy Research Center, University of California Transportation Center, and the Center for Labor and Employment.

2. However, it should be noted that much transit contracting has been used to provide on-demand "dial-a-ride" services, often known as "paratransit".

3. The National Transit Database, or NTD, is a rich source of operating and financial data on all of the US public transit systems that receive some form of direct federal subsidy.

4. Due to the small sample size of Kim's case studies, these differences are not statistically significant.

5. Although, again, this finding is not statistically significant, due to the small sample size of this study.

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