

“Prospects for Employing Public-Private Partnerships  
In U.S. Bus Service Delivery”

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## Abstract

There are a variety of examples of public-private partnerships both in the U.S. and abroad that can be employed more extensively to lower the cost of bus service and improve quality. These partnerships also extend to the financing of rolling stock and infrastructure costs. Examples from around the world will be used frequently, but with particular emphasis of how they can be applied in U.S. cities. A list of “do’s and don’ts” will be offered as a conclusion.

## Introduction

The term “public-private partnership” is used to describe a variety of financial and management techniques; in the case of public transport in the U.S., however, the term is typically associated with rail transit projects. Yet a good many of these techniques—if not the entire gamut—can also be employed on bus transit projects. In fact, many of them already have been used on bus projects, if not here then certainly elsewhere in the world.

One such method, competitive contracting, has been widely used in bus transit decades longer than for rail service. Where it has been employed for rail, the primary contractor (Amtrak) is a government-owned corporation—not exactly a classic “public-private partnership.”

This paper will analyze the current status of competitive contracting, but will go beyond this technique to discuss many others, including those more widely employed in other countries and on U.S. rail projects. The paper will also analyze the appropriateness of these tools for American bus transit service. Finally, recommendations for institutional, regulatory or statutory reform to more readily encourage such partnerships will also be discussed.

## The Oldest Public-Private Technique in Bus Transit

Of course, the longest-employed privatization method employed by American bus transit agencies is competitive contracting. For years, a number of U.S. transit systems have been utilizing contracting to reduce the cost of operating both new as well as existing services. Denver’s Regional Transportation District (RTD), the San Diego Metropolitan Transit Development Board (MTDB), and Community Transit (CT) in Snohomish County, WA are examples of systems with significant portions of their service now under private contract. Perhaps the ultimate examples are in the Southwest, where Citizens Area Transit of Las Vegas and Phoenix Transit are completely operated by contract service providers.

It might be surprising to some people in the public transport industry to realize just how widespread contracting has become. According to analysis of APTA data compiled by METRO Magazine, purchased transportation services approached \$3 billion annually by the end of the 1990s—and increased nearly five-fold from 1984 until 1999, the most recent year for which figures are available. (1) Contracting now comprises more than a fifth of the U.S. public transport industry as measured by annual operating expenditures. (2)

A major reason for the increase, of course, has been the explosive growth of demand-response service, spurred by the requirements of the 1990 Americans With

Disabilities Act. However, regular-route service has also shown significant growth in the past two decades.

Although not perfect, contracting has proven worthwhile in most cases, at least financially. According to CT, whose commuter service to downtown Seattle, Bellevue and the University of Washington is operated by Coach USA, the agency will save more than \$13 million over the length of the current five-year contract when compared to an in-house bid for the service. San Diego's savings during its 20-year history of competitive contracting have been reported as high as \$550 million (though the general manager of the city's transit oversight agency says this estimate is higher than his agency's own). (3)

In Denver, contracting has reportedly saved more than \$100 million since 1989, when it was first implemented by legislative mandate. That mandate, in the form of a bill passed in the Colorado state Senate in 1988, requires Denver's Regional Transit District (RTD) to competitively contract a portion of its bus service. The original amount was 20 percent; last year the minimum was increased to 35 percent. RTD expects to reach the 35-percent bar by June 2001, when recently awarded contracts go into effect. Combined, CT's commuter operations and its paratransit service, which is also contracted, equals nearly 32 percent of the agency's total service. And in San Diego, approximately 44 percent of bus service was competitively tendered as of 1999. (4)

The rationale for contracting appears to be two-fold. The first argument is the cost savings. However, the management flexibility that contracting allows is also significant in more and more instances. Such flexibility enables public transport agencies to become "mobility brokers," whereby they become concerned only with ensuring that the most efficient movement of people is achieved, leaving operational issues to others such as private contractors.

#### Public Private Partnerships Elsewhere

As entrenched as outsourcing to private operators is in America, it pales in comparison to public-private partnerships in other countries. In France, for example, virtually all bus service is contracted out with the exception of the few largest cities.

British bus service has been the most draconian example of bus privatization, with virtually all service outside a few major cities and rural towns completely in open competition and with the remainder in contracts with private operators. A growing number of nations have followed suit in Europe. Case studies of these public-private partnerships will be discussed further below.

In Britain, new enhancements to so-called "quality partnership" and "quality contract" arrangements were announced in October 2001. The government enacted new powers under the Transport Act 2000 for local authorities to specify the quality standards for local bus services and to take remedial action to contract out bus services that have failed to deliver. Regulations giving local authorities these powers (outside London) became effective in October 2001. (5)

Quality partnership schemes allow local authorities to specify quality standards to be met by bus operators in return for using facilities such as bus lanes, upgraded stops and shelters which the authority has provided. These will be discussed in further detail below.

By contrast, quality contracts give local authorities more radical powers to undertake wholesale contracting of local bus services more common in the form of strict franchises, subject to ministerial approval. Authorities would, for example, be able to specify bus routes, service frequencies and fares. Operators can bid for exclusive rights to operate within the scheme area, and the general freedom to run commercial bus services, subject to traffic commissioner enforcement, will cease to apply.

**Leeds, UK:** Superbus, a guided busway system serving the Scott Hall road corridor in the north of the city, has been operating in Leeds since 1995 under a quality partnership arrangement with First Leeds, a subsidiary of the multimodal transport company FirstGroup plc, the UK's largest bus operator. Using curb-based guidance system, the busway is a dedicated bus only route, and according to the operator the guideways provide a more effective means for buses to by-pass traffic congestion, without causing delays to other traffic. This is also aided by signal priority at intersections. Unlike conventional bus-only lanes, the physical features of a guideway (twin raised concrete strips with a grass or gravel area in between conforming to the exact width of city buses) not only prevent unauthorized use by other road traffic, they are also quieter, since vehicle noise is absorbed by this central medium. In addition, bus stops on both the busway and non-busway parts of the Superbus route have been modified to provide a raised platform; the guidewheels specially fitted on each bus that serves this route also allow close alignment of the bus to the raised curb edge. The onboard guidewheel equipment costs were borne by First Leeds while the public works were undertaken by local and central government funds. According to FirstLeeds, most of the current chassis designs from the world's bus manufacturers are available as guided buses at a cost of some 5% to 10% above the normal vehicle price. FirstGroup's policy is that after about three years of use the Superbus vehicles are "cascaded" to other parts of the network and replaced by new buses with the latest technology. In this way the entire network benefits from the bus investment. (6)

Other FirstGroup subsidiaries also operate buses equipped with the guidance systems, including Bradford and Ipswich, UK. Superbus in Leeds has delivered an increase in passengers of 50% since its introduction. (6)

**Nottingham, UK:** For a city of its size Nottingham has one of the most heavily used bus networks with 250,000 passenger journeys per day made to the city center alone. For these journeys the bus is the main mode of travel for 40% of commuters and 50% of shoppers.

A Greater Nottingham Bus Quality Partnerships Strategy was launched in 1997 and a steering group of officials from both the public and private sectors established to promote and implement improvements along identified priority corridors. As a result, more than 5 km of bus lane are in now place reducing journey times and improving the reliability of bus services. Six hundred higher-quality bus shelters have been installed at bus stops with weekly inspection, rapid repairs and regular cleaning. Over 3,000 passenger trips per day are now made on the Nottingham to Worksop Robin Hood Line Railway, a major regional rail system undertaken by several cities and private companies in the East Midlands. More than 12,000 passengers pass through Nottingham Station, a

major multimodal facility improved under another public-private partnership, each day. Four park and ride sites attract over 500,000 users per year.

Funding for construction of Nottingham Express Transit Line One tram system has been secured and construction is underway with the system to be operational within three years and expected to carry over 30,000 passengers each day. This project is being built under a 30-year concession arrangement similar to the design-build-operate and maintain (DBOM) model used in all of Britain's recently opened light-rail systems.

Unlike most other large urban areas Nottingham City Transport, the city's principal bus operator, has been retained in public ownership. However, the quality partnership approach has been critical to the improvement of public transport travel in Nottingham. A Bus Quality Partnership Steering Group was established, comprising bus operators, local authorities and employers. It developed an overall strategy document, under which formal agreements have been signed on two QP routes, with agreements close on four others. As a result, new bus lanes and new or significantly upgraded have been constructed on three identified priority quality corridors into the city's center. Over 500 new high quality bus shelters were installed in 1998 and 1999 as part of a city-wide advertising bus shelter contract. Under these partnerships, a new fleet of low floor buses serving the corridors have been introduced, while the city launched another project to raise curbs at bus stops that will make these bus services fully wheelchair accessible. A framework for monitoring public transport targets, schemes and improvements is set out in the city's Local Transport Plan, in existing bus quality partnerships, and more generally in the current local strategic plan. The latter document includes best value indicators used to measure the city's public transport performance and compare it with other UK communities. These indicators for public transport include: percentage of users satisfied with the provision of public transport information as measured by surveys; percentage of users satisfied with local bus services as measured by surveys; local bus services vehicle kilometers operated per year; local bus services passenger journeys per year; and cost per passenger journey of subsidized bus services.

Nottingham has also installed NextBus real-time passenger information displays at bus stops on five bus corridors. A travel planner including all Greater Nottingham public transport services has also been produced and regularly updated, which is also been posted on the Internet with other traffic and travel information. (7)

**London:** The sheer scale and complexity of London's transport system, coupled with the metropolitan area's political and economic importance to the country, mean that transport problems in London are of a different magnitude from those in any other in the UK. Public transport also plays a much more important role in transport than elsewhere: people working in London account for 65% of all public transport passenger miles on daily journeys to work in England. Demand for rail travel in London, now standing at three million daily trips on London's famed Underground alone, is at record levels, causing serious overcrowding, and is expected to increase further. Each weekday 6,000 London buses carry 4.5 million passengers on 500 different routes, an increase of more than 3% over the previous year and the highest since 1978. Bus service levels operated during the 2000-2001 fiscal year were the highest since 1967.

At the same time, however, London experiences the most intense and most widespread traffic congestion in the country. In part to address transport concerns, Parliament enacted the Greater London Authority Act, which devolves transport and

other certain local powers to an assembly and mayor for Greater London. It also requires the London mayor, through a newly constituted department called Transport for London, to develop and implement a transport strategy for London, in consultation with the Greater London Assembly, the 33 London boroughs, business and other stakeholders. Mayor Ken Livingstone proposed his first strategy in the middle of 2001.

For buses, Livingstone called for improved bus frequencies and enhanced off-peak and night bus services; and higher standards of bus quality, accessibility for passengers, enforcement, bus stop information and increased bus priority for all major bus corridors. These will be achieved in the form of quality partnerships and quality contracts to be published in 2002. More than 200 buses are being added to the British capital's network over 2002, which might include articulated buses—novel to London, which has traditionally offered doubledeckers as its higher-capacity alternative.

London Buses, a division of Transport for London, manages bus services in London. It plans routes, specifies service levels and monitors service quality. It is also responsible for bus stations and stops and other support services. The bus services are operated by private operators, which work under contract to London Buses.

Under an accelerated bus improvement program, more than two-thirds of London's 17,000 bus stops have shelters, almost all which with seats and lighting. Automatic vehicle location is being extended to improve the reliability of London's bus services. During the year more than 2,000 buses were fitted with the AVL system and fitting of remaining buses and installation of service control screens at all bus garages is on target for completion during the current fiscal year. Countdown, a “next-bus” real-time passenger information system, has been installed at more than 1,000 bus stops across London, and 4,000 are planned by 2005. Importantly, bus fares were frozen in January 2001. (9)

**Stockholm, Sweden:** Stockholm chose a privatization path that was much less severe than Britain's. Divisions of Storstockholms Lokaltraffik (SL), the agency responsible for public transport in the Swedish capital region, were separated from the management umbrella of the agency. Routes of both the rail and the bus network were put out to competitive tender, but the operating divisions were allowed to form their own bids to retain control of the service. In some cases they succeeded; in others, not.

According to SL management the results were better than they hoped for. The network increased ridership by 15% over pre-privatized levels, while cutting costs by one-fourth. However, even the threat of competition forced the operating divisions of SL to reign in costs.

Another interesting aspect of the Stockholm model is that SL as part of the tender process stipulated that private contractors must employ staff at the same public-sector pay scales. Economies were achieved by management efficiencies, not at the expense of staff jobs and compensation. This technique overcame a major opposition to Stockholm's privatization program. (1)

#### Attractive Rail Models

There have a variety of public-private partnerships employed throughout the world for rail projects. Indeed, it is almost the only method of undertaking rail public transport projects outside the U.S. and Canada.

Perhaps the most extreme example is in Bangkok, where the world's first metro line entirely built, operated and *financed* in the private sector was opened in Bangkok in December 1999. The method of public-private partnership currently most attractive to U.S. rail officials, however, is so-called turnkey, or design-build, contracting. For reasons that will be discussed below, it is this method that will likely have the most potential for U.S. bus projects, as well.

Several rail projects have now been opened using the design-build method, including the extensions of Baltimore's light rail system and Los Angeles' Gateway Center complex adjacent to Union Station, the city's primary multimodal facility. Nearing completion is San Francisco's extension of the Bay Area Rapid Transit system to the San Francisco International Airport and San Juan, Puerto Rico's Tren Urbano, the latter two involving heavy rail projects. Use of another turnkey method, called design-build-operate and maintain (DBOM), was employed by New Jersey Transit for its Hudson-Bergen Light Rail Project, the first segment of which opened in 2001.

British rail transport projects take this concept a step further. Under the private finance initiative (PFI) enacted in Britain in 1992, the risk of designing, building, financing and operating public projects is transferred to a private consortium in a concession-type contract that typically lasts for 30 years. Private consortiums are paid a regular fee depending on how well the service performs. PFI is now almost the exclusive method used in rail public transport projects in Britain and one of the main ways of building new public works projects in general.

Critics argue out that PFI schemes are a costly form of project finance and that a better public policy would be more liberalized bonding and higher public spending (i.e., "pay me now vs. pay me later"). Supporters reply that the PFI provides a way of upgrading Britain's old infrastructure on a large scale without increasing the burden of public debt, which they say was reaching levels that threatened economic growth. These are the very arguments surrounding the British government's proposals for rehabilitation of the massive London Underground, the harshest critics of which are London Mayor Ken Livingstone and his staff. (10)

Supporters of the PFI concept for public transport projects will find much support in the most recent UK light rail system, called Croydon Tramlink. Opened in the spring of 2000, Tramlink is an 18-mile system serving the suburban areas of Croydon and Wimbledon, south of London. The entire system was built for \$300 million under a 30-year concession, but the consortium responsible for the project, called Tramtrack Croydon Limited (TCL)—comprising Bombardier Transportation, CentreWest Limited, Sir Robert McAlpine Limited, Amey Construction and the Royal Bank of Scotland—accounted for more than a third of that amount. Thus, the entire system, including its operating costs for the next three decades, will be built with less than \$200 million (in 2000 dollars) of the government's money.

### Overcoming Challenges to Public-Private Partnerships

Consensus opinion on the overriding barrier to contracting—and possibly other forms of public-private collaboration—is not secret. Labor unions have been vociferous in their opposition to most outsource arrangements, fearing a loss of usually good-paying jobs for their members.

It is particularly problematic in cities with a mix of contracting and public-sector operations. This is probably because the threat is most immediately perceived in these situations, where there is ready comparison.

To stave off this opposition, many cities have tried to work with unions, often in order to give its in-house bid the best possible chance of winning. Others have met with their unions prior to a privatization program to address their concerns and mutually develop solutions—again with mixed results. Still others have tasked evaluation of tenders, especially in the case of programs involving bids from the existing public-sector organization, to an independent third organization.

Obviously, unions' opposition softens when minimum wage and benefit levels are stipulated in contracts. Related to this issue is a sufficiently attractive set of operating conditions so that contractors are not forced into abandoning the contract, which has happened. It may also benefit the contractors to have minimum compensation provisions to make it easier for them to attract and retain drivers and other staff. Still others confine contracting to new services to head off entrenched opposition; other forms of public-private partnership are most effectively implemented for new services, as well.

Other privatization ideas might have even greater barriers to implementation, though these barriers are gradually being lowered. They include contracting laws in some states that prohibit turnkey contracts and franchising arrangements.

Another barrier stems from lack of knowledge in the bus industry about such techniques, especially the innovative financing methods found especially in rail and in other countries. Particularly on bus rapid transit projects, the UK quality partnerships and design-build models could be used in the U.S. Because these projects are typically less expensive per mile than their rail counterparts and because many of the private-sector contract operators doing business in the U.S. have parents with extensive experience in these techniques internationally, they hold great promise for BRT.

However, the largest barriers of all might be attitudinal: human resistance to change. Governance is fundamentally not entrepreneurial; risks are seldom rewarded and failures are punished severely and often publicly. Moreover, to be frank, the U.S. industry has enjoyed record levels of investment and ridership levels; many in the industry would ask, if it isn't broken do we need to fix it?

Yet the world has changed, as a recent Transit Cooperative Research Program report has pointed out, changes that could threaten future success and in some cases even the very existence of antiquated public transport services. Effective innovation must be rewarded and ossified response to changed circumstances must be discouraged, lest recent gains be squandered. (11)

### Conclusion

The reasons for using public-private partnerships are equally attractive to manage and finance bus projects as rail, and with the lower cost of bus projects, could be used even more extensively for upgraded bus services. Although the legal and institutional barriers to using these methods are continuing to be lowered, the chief obstacles could very well be lowered. In this the bus transit industry would do well to heed the words of Peter Drucker, who warned that organizations must not sacrifice future success on the altar of past ones.

### Notes

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