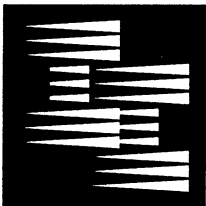


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RTD's Competitive Contracting Program: Cost Savings Produce More Service, Attract More Passengers

By Jon Caldera



INDEPENDENCE INSTITUTE

14142 DENVER WEST PARKWAY, SUITE 185

GOLDEN, COLORADO 80401

(303) 279-6536 FAX (303) 279-4176

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RTD's Competitive Contracting Program: Cost Savings Produce More Service, Attract More Passengers

By Jon Caldara

Executive Summary:

The competitive contracting program, which requires RTD to contract out 20% of its services to private contractors, has reversed RTD's previous trend of increasing costs. The cost savings from competitive contracting has enabled RTD to improve service, resulting in the largest ridership gain of any of the nation's largest 25 bus systems. If the legislature raised the percent of RTD services which can be competitively contracted to 35% or more, the benefits to metro Denver mass transit users would be all the greater.

RTD is required to competitively contract 20 percent of its bus service. Senate Bill #164 (1988) required RTD to competitively contract 20 percent of its bus service. The primary purpose of this legislation was to improve RTD's cost effectiveness. RTD, like other transit agencies, had experienced cost escalation in excess of inflation. The same concern has led to full competitive contracting conversion programs in London, Copenhagen, Stockholm, Helsinki, Perth, Adelaide, Melbourne, New Zealand and South Africa. In the U.S., Las Vegas contracts 100%, Indianapolis 70%, and San Diego 40%. In-house transit unions have won many of the contracts in San Diego and Indianapolis.

Competitive contracting has saved RTD more than \$100 million. Average cost savings from 1989 to 1998 were 40 percent. Over the period, \$101 million was saved compared to the cost of RTD operations.¹ The financial benefit to the community is even more, since RTD's private contractors pay state and local taxes, fuel taxes and license fees, unlike RTD.

Competitive contracting costs are falling. In 2000, costs per hour will be \$46.94, compared to \$52.64 in 1998 (Figure #1, on the next page).² The latest contract has a first year average cost of only \$42.00 an hour. These falling costs are the result of RTD efforts to encourage competition³ which this year brought in six bidders, five of whom were not incumbents. Under fixed price contracts now in effect, total cost savings from 1989 will rise to \$156 million by 2004.⁴

A higher legislative mandate would produce higher savings. RTD analyses indicate that if RTD were required to competitively contract 35 percent of its bus service, additional savings of

up to \$24 million would be achieved over the next four years.

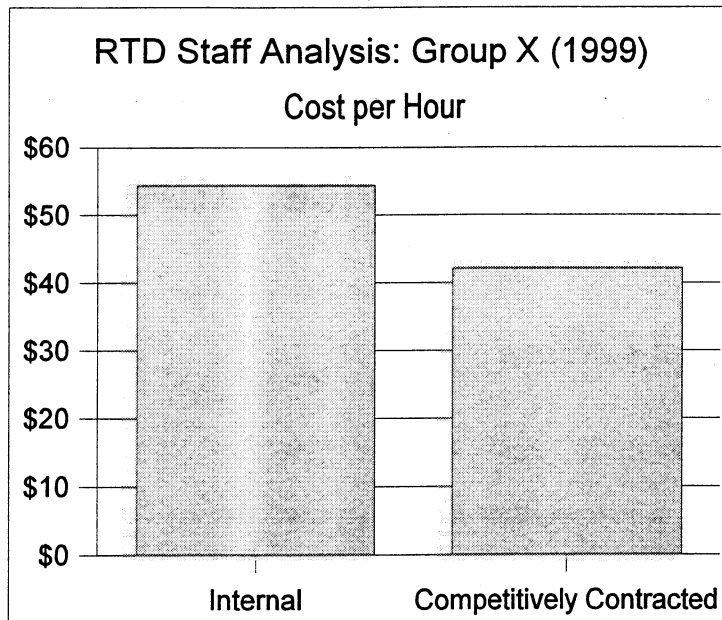


Figure 1
RTD staff analysis shows that RTD’s per-hour costs for contracted services is much lower than for similar services which RTD produces in-house.

Competitive contracting has improved RTD’s overall cost performance. Before competitive contracting, RTD costs were rising above inflation. Competitive contracting has reversed this trend through both direct contract cost savings, and through the “ripple” effect (competition has induced better cost performance within RTD).⁵

- RTD bus system costs per hour rose 24.3 percent before competitive contracting, but have fallen 22.3 percent during competitive contracting (Figure #2, on the next page).
- Ripple effect savings are evident in RTD’s 10 percent cost per hour reduction in direct (in-house) costs since competitive contracting began.

Competitive contracting made it possible for RTD to significantly increase bus service while building light rail. RTD would have required considerably more to operate service without competitive contracting and its competitive influence on direct costs. RTD would simply not have been able to increase bus service and built light rail without competitive contracting.

- If RTD costs had continued to rise at the 1979-1988 rate, \$387 million more would have been required to operate service from 1989 through 1997.

- Even if RTD costs had risen at the rate of inflation (lower than RTD cost increases before competitive contracting), \$191 million more would have been required to operate service from 1989 through 1997.

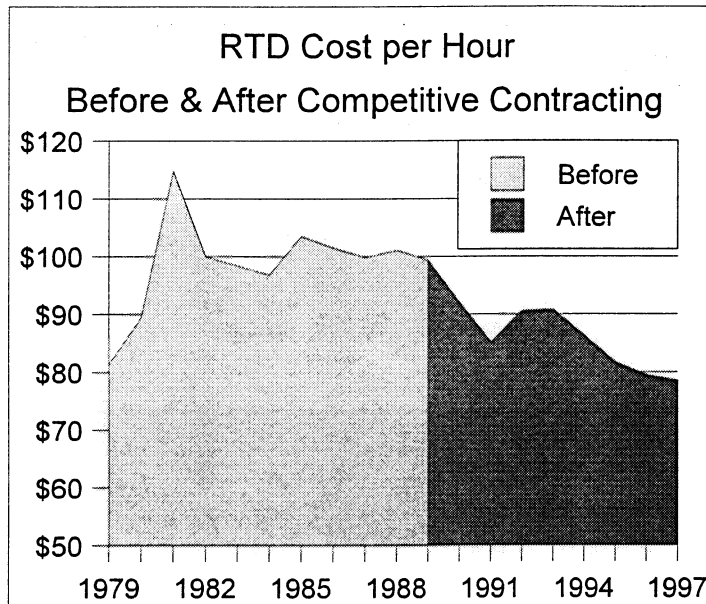


Figure 2
RTD data show that competitive contracting reversed RTD's trend of increasing costs. Thanks to competition, RTD costs are now declining.

RTD has been able to increase bus service because of the competitive contracting cost reductions.

- In the nine years before competitive contracting (1979-1988), RTD bus expenditures rose 8.7 percent (inflation adjusted), while service levels were reduced 12.6 percent.
- The quality of RTD's contracted service meets or exceed all standards required by RTD.
- During the nine years since competitive contracting began (1988-1997) RTD's bus expenditures rose 4.3 percent (inflation adjusted), while service levels increased by 34.3 percent (Figure #3, on the next page).

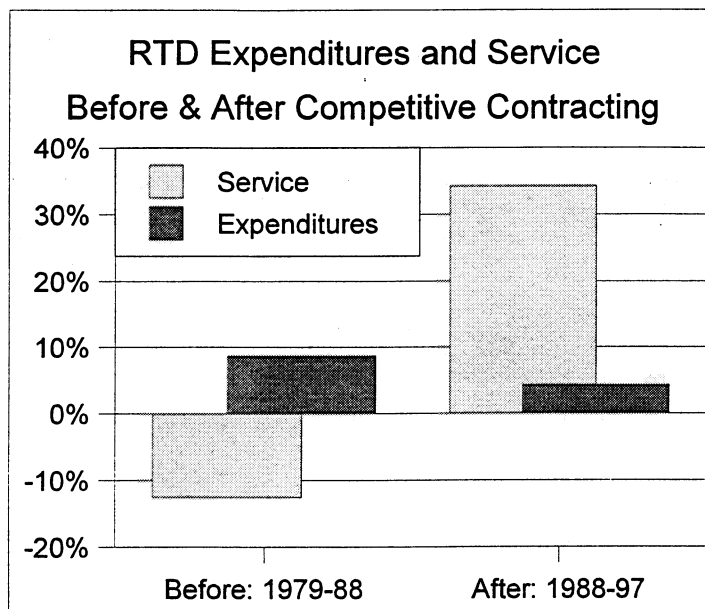


Figure 3

According to RTD data, after the competitive contracting program began, costs fell, and service rose. Before competitive contracting, costs were rising, and service falling.

RTD has substantially increased bus ridership since competitive contracting began. From 1988 to 1996, RTD ridership rose 27.6 percent --- the *largest* ridership increase of the nation's 25 largest bus systems (see the Table, on the next page).⁶

- During the same period, 18 of the nation's top 25 bus systems lost ridership.
- RTD's bus service increase from 1988 to 1997 was *three times* the ridership of the RTD light rail line.
- Most of the ridership increase is attributable to the higher levels of bus service that RTD was able to provide --- a direct result of the competitive contracting environment.⁷

From 1989 to 1997 approximately 65 million additional bus riders were attributable to RTD's improved performance under competitive contracting.

In 1997, approximately 40,000 new bus riders per day were attributable to RTD's improved performance under competitive contracting.

Change in Bus Ridership: Top 25 Public Transit Bus Systems				
Rank	Bus System	Millions of Boardings		Change
		1996	1988	
1	Denver-RTD	65.4	51.2	27.6%
2	Portland-Tri-Met	60.7	48.2	25.8%
3	Seattle-Metro	64.2	54.2	18.4%
4	Miami-MDTA	61.4	53.2	15.4%
5	Houston-Metro	79.9	69.6	14.8%
6	Oakland-AC Transit	64.2	57.2	12.1%
7	New Jersey Transit	138.1	129.2	6.8%
8	Dallas-DART	55.1	55.6	-0.8%
9	Honolulu-DTS	69.1	72.8	-5.1%
10	Boston-MBTA	103.3	109.0	-5.2%
11	San Francisco-Muni	89.9	96.5	-6.9%
12	NY-MTA-NYCTA	637.7	710.3	-10.2%
13	Atlanta-MARTA	72.3	82.3	-12.2%
14	Minneapolis-St. Paul-MCTO	61.9	71.2	-13.1%
15	New Orleans-RTA	55.2	65.8	-16.2%
16	St. Louis-Bi-State	37.6	45.1	-16.6%
17	Pittsburgh-PAT	64.1	77.4	-17.2%
18	Philadelphia-SEPTA	156.0	189.8	-17.8%
19	Milwaukee-County	60.0	73.3	-18.1%
20	LA-LACMTA-Metro	336.9	424.6	-20.7%
21	Baltimore-Maryland-MTA	78.2	105.1	-25.6%
22	Washington-WMATA	123.4	166.4	-25.8%
23	Detroit-D-DOT	46.3	64.9	-28.7%
24	Cleveland-RTA	50.7	71.4	-28.9%
25	Chicago-RTA-CTA	302.1	430.1	-29.8%
Total		4,930	5,363	-13.1%

Conclusion: RTD's competitive contracting program is an unqualified success. It has resulted in lower costs, and better service. ■

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JON CALDARA is President of the Institute. He formerly served as Chairman of the Regional Transportation District's Board of Directors. He also led the successful 1997 citizen campaign against a sales tax increase for

transportation ("Guide the Ride"), and the successful 1998 citizen campaign to defeat a proposal to allow the Colorado state government to retain a billion dollars of excess revenue, rather than refunding it to the taxpayers ("Referendum B").

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Endnotes

1. Calculated from data in *KPMG Performance Audits, RTD-Management/Administration Study, 1996* (Mundle & Associates and Wendell Cox Consultancy) and RTD staff memoranda for services competitively contracted since publication. In a letter to the House Local Government Committee, the Amalgamated Transit Union (ATU) claimed that proponents claims of savings had been considerably reduced after being challenged in a report by Dr. Elliot Sclar. In fact, no such reduction occurred and difference is the result of ATU quoting an RTD Staff analysis out of context.
2. 1999 costs not used because services will be operated under the old more costly contracts and new less costly contracts.
3. The large 1998 procurement attracted six proposers, five of which were not incumbents. The previous procurement of the same packages (1993) attracted only the two incumbent operators.
4. Actual cost savings will be higher through 2004, since some contracts will be rebid before the end of the period. At current inflation adjusted rates, it is projected that costs savings will be \$168 million from 1998.
5. Dr. Elliot Sclar of Columbia University has published a paper for the Amalgamated Transit Union claiming that the RTD competitive contracting program has saved considerably less than these estimates. There are a number of difficulties with Dr. Sclar's analysis, such as a failure to account for higher service levels and excessively low internal cost estimates. An RTD analysis characterizes Dr. Sclar's analysis as an "inaccurate comparison." (Regional Transportation District, *Rebuttal of "Paying More, Getting Less"*).
6. Analysis of National Transit Database 1988 to 1994 (latest year available for national data).
7. Approximately 87 percent of the new ridership is estimated to be attributable to RTD's improved cost performance under competitive contracting. The balance is attributable to the small increase in overall bus expenditures (3 percent).