INDEPENDENCE ISSUE PAPER

Issue Paper 2-88
February 8, 1988

Contracting Out RTD Routes To Private Carriers Could Produce Savings And Better Service

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IN BRIEF

- The Regional Transportation District as presently structured is a drag on the Colorado economy. A heavily subsidized government monopoly, RTD sucks millions of tax dollars out of the economy year after year.
- But rather than buying Denver area residents a swift and efficient alternative to the automobile, these vast sums of capital are arguably being squandered.
- Much of the blame is attributable to RTD's structure. Vested with statutory authority to condemn its private competitors and subsidize its own operations, RTD has an unassailable monopoly on mass transportation. As such, it tends to extract a high price for inferior service.
- Senate Bill 164 would respond by introducing a healthy dose of competition and private sector initiative. SB 164 would gradually ease the RTD Board out of the business of <u>operating</u> a bus company.
- The board would continue to oversee the delivery of mass transit services to the metro area, but RTD bus routes would be periodically put out to bid to whatever private companies can provide the best service at the best price.
- Making the switch from operator to contractor at transit agencies in other cities has slashed deficits, improved service, and provided tax relief. The same could be achieved here.

RTD: What Price Mass Transit?

The General Assembly created the RTD in 1969 to run a mass transit system in the six-county metro area. In 1973, district voters approved a one-half cent sales tax (later increased to 0.6 cents) to fund RTD. During the following several years, RTD by purchase and condemnation took control of all bus operations in the 35 cities within its 2,298 square-mile service area.

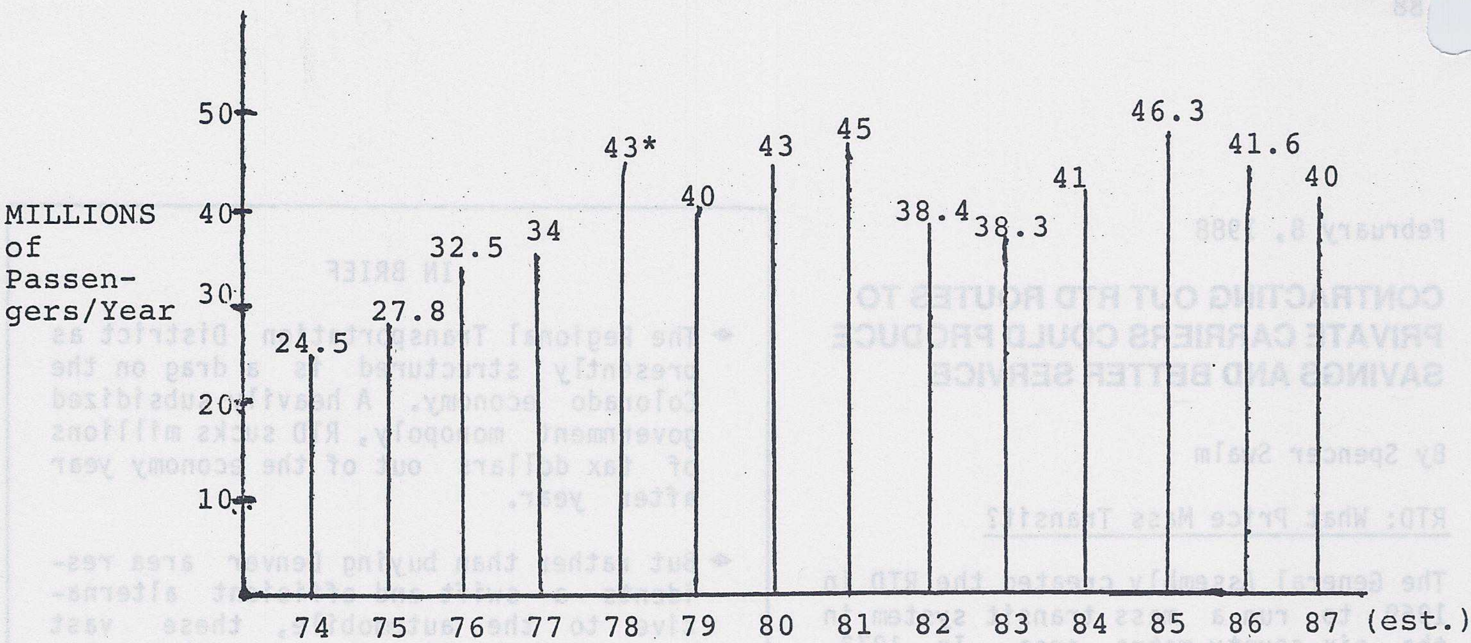
RTD usage climbed each year before 1978, reaching 43 million riders. Since then, however, gains have been uncertain at best (see Figure 1).

Ridership reached 45 million in 1981. The 1982 strike dealt patronage a severe blow. Usage fell off by 15% in 1982 and 1983. It was 1985 before pre-strike ridership was exceeded. In the past two years, boardings have again fallen off.

RTD's tax revenues and expenditures bear little or no relationship to its ability to attract riders. Taxes and spending have both increased sharply even while ridership has been stagnant or in decline (see Figures 2 and 3).

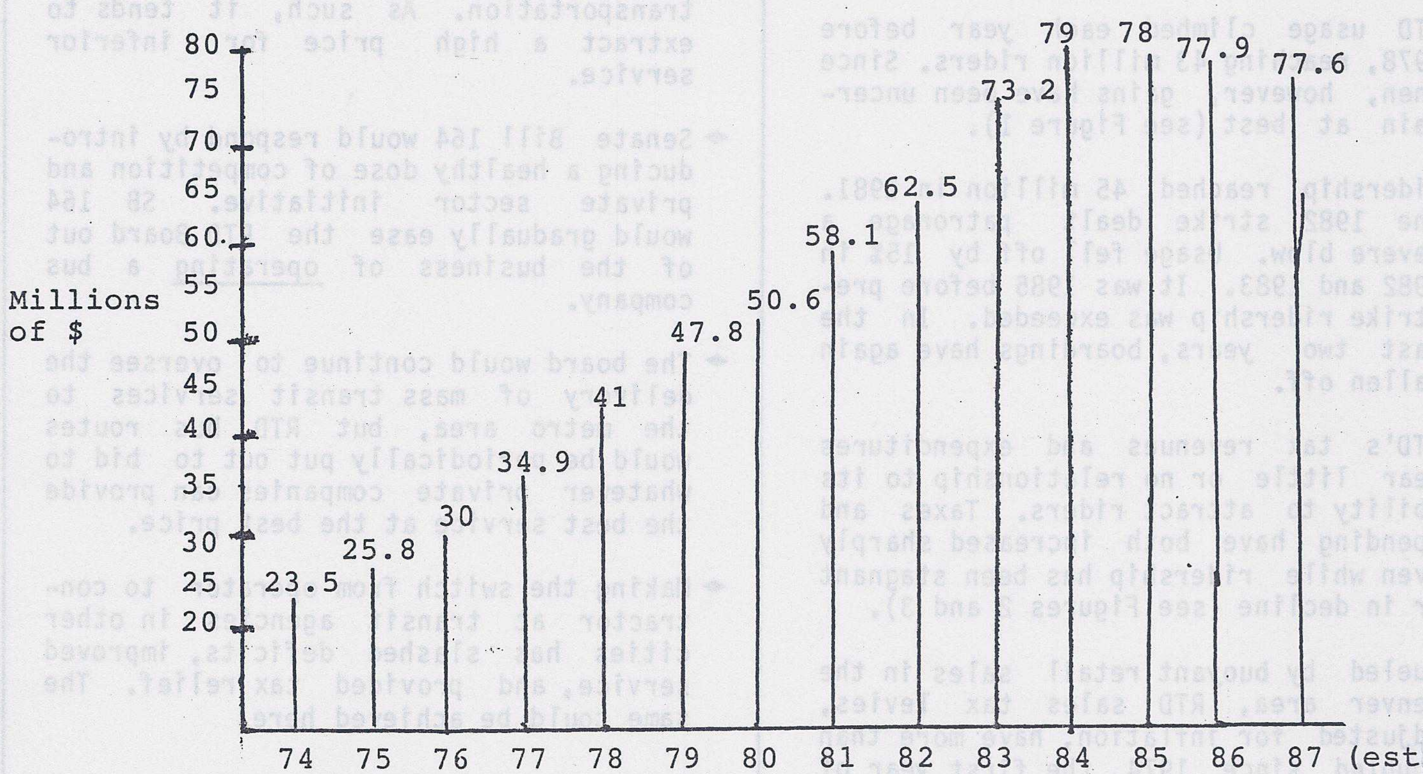
Fueled by buoyant retail sales in the Denver area, RTD sales tax levies, adjusted for inflation, have more than doubled since 1974, the first year of

FIGURE ONE: RTD RIDERSHIP

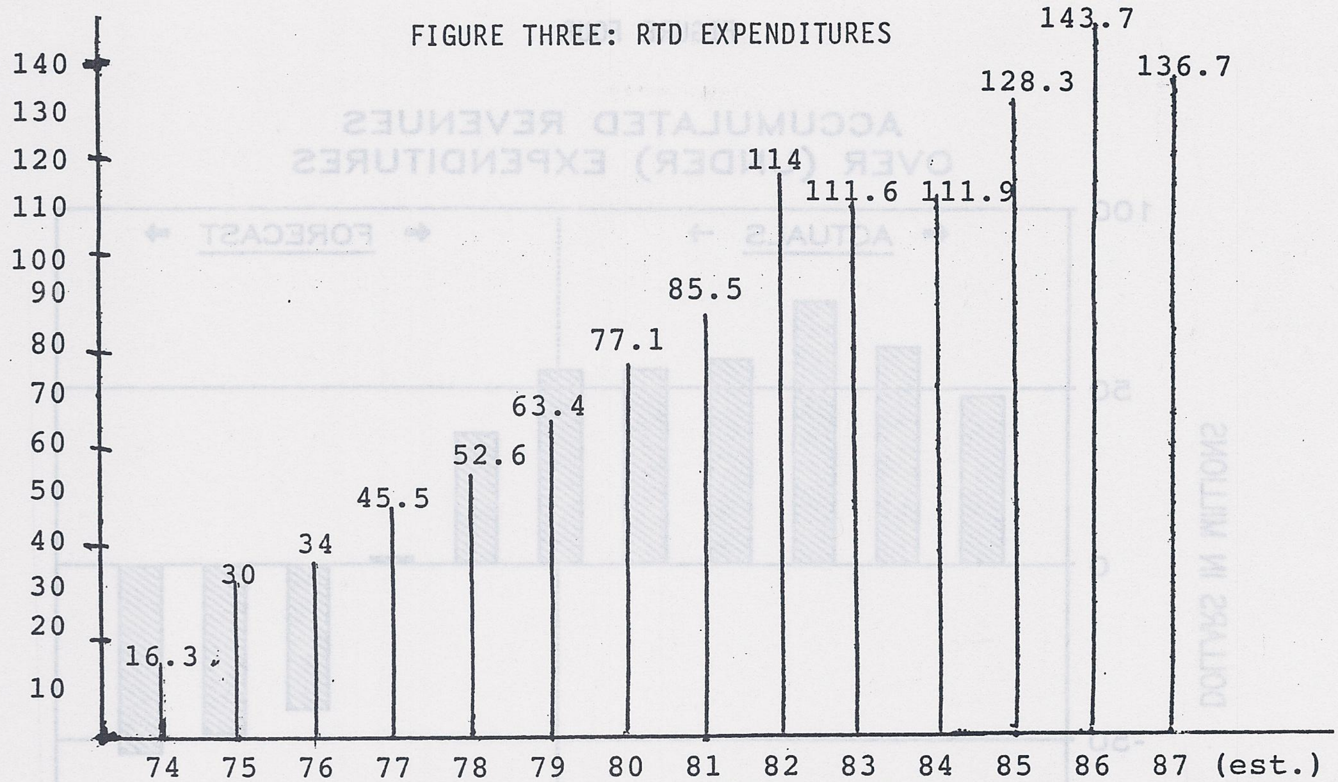


*Free Off-Peak fares offered for 11 months
SOURCE: RTD Annual Reports - 1974-1987

FIGURE TWO: RTD SALES TAX REVENUES



SOURCE: RTD Annual Reports - 1984-1987



SOURCE: RTD Annual Reports - 1974 - 1987 &
Gen. Mgrs. 1988 Recommended Budget

the tax. Although the depressed economy has slowed sales tax gains over the past several years this source of revenue continued to grow long after ridership leveled off in 1978. RTD expenditures (above) show the same pattern of increase despite the absence of justification in the form of higher patronage.

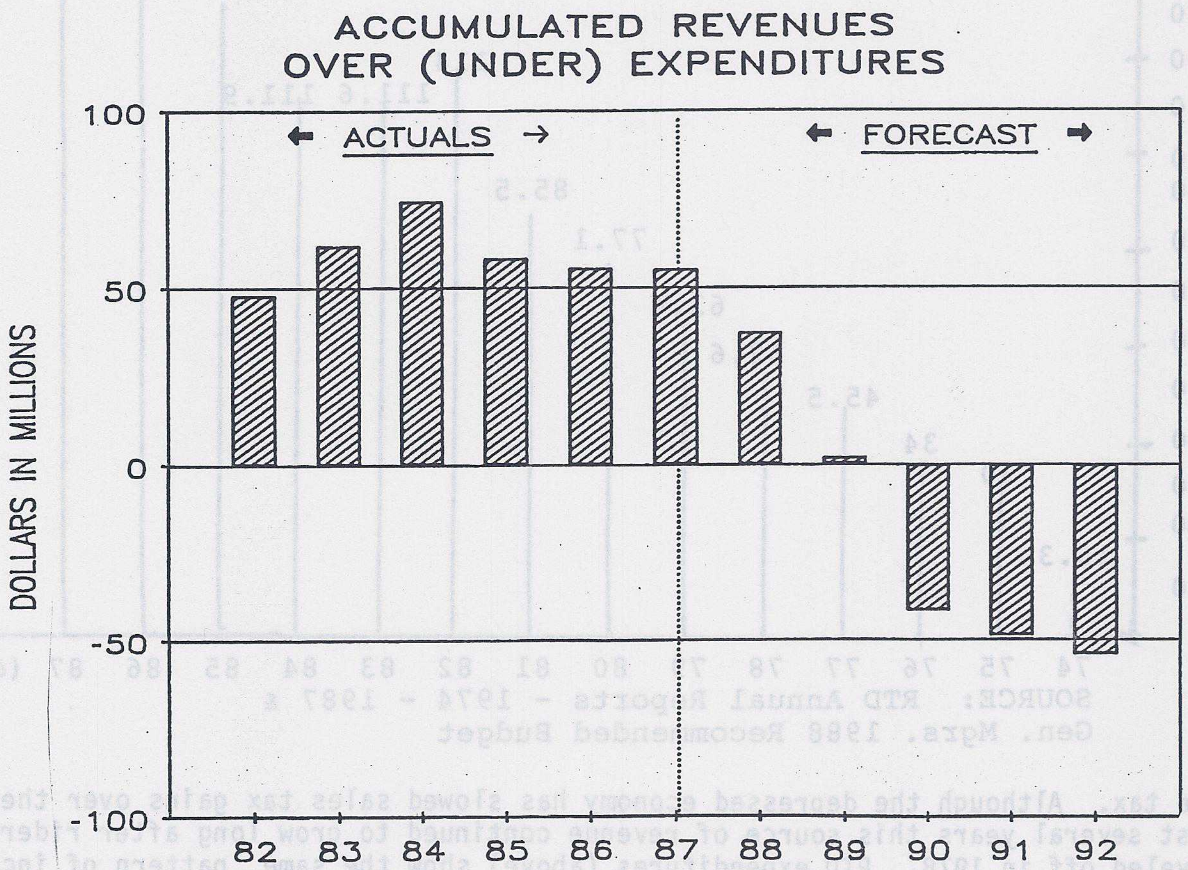
RTD's Surplus: Rapidly Shrinking

A worrisome problem has appeared in the wake of the collapse of the oil boom. In the late '70s and early '80s, rapid growth in the Colorado economy produced enormous increases in RTD sales tax revenues. The money poured in more rapidly than even RTD could spend it. The result was the accumulation of a very substantial surplus.

But since the bloom has gone off the oil rose, the growth in sales tax revenues has stopped. RTD, however, has experienced considerable difficulty in adjusting its spending habits to the new economic climate. Rising expenditures in the face of declining revenues means that RTD has had to dip into its contingency fund to meet current obligations. As shown by Figure 4, RTD is forecasting that its surplus will be gone by 1989 and a revenue shortfall will occur by 1990. (Figure 4 is copied directly from the RTD General Manager's Recommended 1988 Budget dated October 13, 1987).

Unless something is done, metro area taxpayers and bus riders will soon be faced with a tax hike, a reduction in service, or a combination of the two. Many cities, including Chicago, New York, and Los Angeles, have been confronted with this Hobson's choice.

FIGURE FOUR



RTD can raise taxes without first seeking the approval of voters or the legislature. The Regional Transportation District Act gives the board the authority to levy a property tax of up to 1/2 mills on its own initiative. (C.R.S. 32-9-120). RTD has consistently mentioned property taxes as a potential source of revenue in its annual "Facts and Figures" reports.

RTD Labor Costs - Out of Control

Labor costs represent 70% of RTD's budget. Doing business in an environment free of market-place discipline has caused payrolls to veer badly out of control. RTD management has convincingly demonstrated its inability to solve the problem under the existing statutory scheme. SB 164, by restoring a large measure of competition, promises a solution.

There is no better way to illustrate RTD's problem with labor costs than to compare the average pay scales at RTD with average earnings in other professions.

Amalgamated Transit Union members and other RTD employees enjoy a standard of living that is nearly twice that of the average Denverite. Bus drivers here make double the average salary of their counterparts across the country. These wage scales are both a costly tribute to the negotiating skills of union representatives and a stunning indictment of those officials who are supposed to be representing the best interests of the tax-paying and bus-riding public.

Profession	Average Annual Salary
RTD Staff	$31,890 ($44,646 w/benefits)
RTD Bus Driver	$32,450 ($45,430 w/benefits)
RTD Mechanics	$28,800 ($40,320 w/ benefits)
School Principals (Sr. High)	$43,975
Professors (Full)	$41,097
Teachers (Secondary, Elementary)	$25,004
Teachers (Kindergarten)	$23,785
Truck Drivers	$22,088
Registered Nurses	$21,630
Police Officers	$21,115
Fire Fighters	$10,918
Bus Driver (all) (national average)	$16,068 (w/o benefits)
Metro Counties Average Annual Earnings	$19,880
Colorado Average Annual Earnings	$18,941.

(Source: RTD information taken from RTD published and unpublished reports and Urban Mass Transit Agency, Section 15 reports. Non-RTD salaries taken from U.S. Bureau of Labor Statistics, 1984-1985. Figures were adjusted for inflation through 1986.)

The Regional Transportation District Act: Part of the Problem

Much of the blame for the disastrous state of affairs at RTD must be laid at the feet of the Regional Transportation District Act (C.R.S. 32-9-101, et seq). The Act encourages all of RTD's wrong-headed tendencies. It is difficult to conceive of real improvements at the district before the Act is revised along those lines suggested in SB 164.

When passed in 1969, the Regional Transportation District Act authorized the district to "establish, maintain, and operate a mass transportation system..." C.R.S. 32-9-119(1)(L). Although the Act also gives RTD the authority to enter into contracts with private firms to provide transportation services, C.R.S. 32-9-119(1)(e), the initial board of directors followed the practice that then prevailed throughout the country and elected to operate the service itself. Subsequent boards, both appointed and elected, have adhered to the same policy.

This decision, in conjunction with RTD's ability to subsidize its own operation through the sales tax, has put RTD in a monopoly position.

The district has abused its monopoly powers. It has grossly overcharged the majority of its customers (those taxpayers who don't ride the bus but rely on RTD to help reduce congestion and pollution) in order to undercharge the minority of citizens who actually pay at the farebox. It has also failed to provide a satisfactory product. The district has the dubious distinction of achieving a record of declining patronage even as the Denver area grew by 11% from 1.6 million in 1980 to 1.78 million in 1986.

Mere tinkering with the Regional Transportation District Act is not going to fix the problem. Neither can RTD be relied upon to clean its own house. The board has often expressed its determination to remain on the present course. The time has come for the legislature to do some good old-fashioned trust busting.

HOW RTD COULD BE RADICALLY IMPROVED BY CONTRACTING OUT

Senate Bill 164 would radically alter the operations of the Regional Transportation District. The bill proposes to sweeps away a lumbering monopoly that consumes at least five tax dollars for every dollar it earns at the farebox. In its place SB 164 encourages a proliferation of small, nimble, and eager transit providers whose continued existence will depend more on their ability to attract paying passengers than their ability to defend a tax subsidy.

So fundamental a change raises at least four questions. One: How does SB 164 cause a multitude of bus companies to spring from the same soil that, until now, has supported only one? Two: What will be done with RTD's existing assets squabbling which would be detrimental to riders and taxpayers alike? Four: safeguards exist to prevent healthy competition from degenerating into petty squabbling which would be detrimental to riders and taxpayers alike? Four: What will be done with the tax savings?

The answers are discussed in the following sections. Citations designated as "Para." refer to paragraph numbering within the bill, which would become statutory reference numbers if it is enacted and signed into law.

1. Encouraging Competition

Until now, the RTD board has recognized and dealt with only one supplier of transit services in the district: its own. SB 164 takes off the blinders and throws open the windows. There is an entire universe of existing and potential sources of these services. SB 164 does nothing more than put these suppliers on the same footing as RTD's own and then leaves it up to the board to pick those that will provide bus patrons with the best possible service at the best possible price.

At the heart of SB 164 is the concept of a qualified provider. A qualified provider is any private business that wants to provide bus service within the district and which complies with guidelines promulgated by the board. (Para. 32-9-119.5(2). Under the bill, the board is required to establish standards for safety, financial responsibility, and experience. To further encourage vigorous competition, the bill exempts qualified providers from Public Utility Commission regulation. (Para. 32-9-119.5(8).

Qualified providers must also meet their obligations under the contracts they enter into with the district. The bill sets forth certain elements that must be found in all such contracts. Included are provisions as to passenger comfort, safety, routes, fares, scheduling, bus markings, performance and training standards, and insurance. All contracts with qualified providers are also required to continue penalty clauses for inadequate performance, including cancellation rights. Contracts are limited to three years, with a two-year option. (Para. 32-9-119.5(2)(d). To encourage participation by a large number of suppliers, no contract can cover more than 3% of the total miles in the district. (Para. 32-9-119.5(3)(c).

The bill mandates that the district enter into a contract with a supplier who submits the lowest responsive bid. The one exception is that no bid shall be accepted if it would mean that a single qualified provider controls more than 50% of the market. (Para. 32-9-119.5(3)(e).

The legislation recognizes that change of this magnitude is best achieved in manageable increments. Accordingly, the bill phases in the competitive bidding process over a several year period beginning in 1988 and ending in 1992. (Para. 32-9-119.5(3)(a).

There are exciting days ahead for Denver area mass transit if the General Assembly adopts SB 164. The vigorous competition encouraged by the bill would pay welcome dividends in the form of lower costs at RTD and tax relief for district residents.

By calling upon the creative energies of free enterprise, SB 164 also promises to make mass transit a much more attractive alternative to the private automobile.

2. What to Do with RTD's Bus Operations

SB 164 gets the RTD Board out the of business of running a bus company. Once having made the transition, however, the board is left with the awkward question of what to do with a huge bus operation that, until now, has produced little but staggering deficits. SB 164's solution is, to sell the bus operations to its present employees in the hope that they can make the operation profitable and productive.

SB 164 would convert RTD's bus operations into a free standing private corporation that will no longer have direct links with the board. The new entity, so long as it meets the board-established requirements for a qualified provider, will be entitled to bid on any bus service contract awarded by the district. (Para. 32-9-119-5(4). After a transition period, the new corporation will be awarded only those contracts on which it submits the lowest bid. The successor corporation is also given the right to lease, for a nominal sum, RTD vehicles and maintenance facilities until 1995. (Para. 32-9-119.5(4)(a).

The stock that results from the creation of the new corporation will be offered for sale on favorable terms to company employees. Any stock not so purchased is ultimately made available for sale to the public. (Para. 32-9-119.5(4)(d).

These provisions of the bill achieve two objectives. First, and most importantly, they permit RTD to cut its losses. The district sheds "assets" which, as presently operated, are a terrific drain on taxpayers. The bill also attempts to convert these assets to productive use by giving them to a corporation owned by present RTD employees. They, if anyone, should know how to get RTD's bus operations back on track. And, as owners, they will stand to gain the most if they do so.

3. Assuring Orderly Competition

Despite the promise held out by "privatization," much of the potential gains will be lost if the process is not orderly. If buses with unfamiliar markings start appearing at RTD stops, if schedules are not coordinated and if, in short, new services are not "user friendly," ridership will inevitably suffer.

SB 164 recognizes the potential problem and addresses it by giving the board full authority to properly coordinate and supervise the private delivery of mass transit services in the district.

The board's authority begins with its powers to define who is a qualified provider of bus services. The board is thereby assured that only those bus companies with good safety records and adequate financial backing will operate on district routes. The board also controls routes, schedules, fares, transfers, bus markings, and equipment. (Para. 32-9-119.5(2).

Full transit service within the district is also assured by the board's ongoing power to use its sales tax revenues to subsidize those bus operations that require it. (Para. 32-9-119.5(9).

Despite the fact that SB 164 encourages participation by a potentially large number of bus companies in the Denver area transit market, the change should cause little outward difference in the face that RTD presents to riders. The bill gives the board ample authority to see that routes, schedules, transfers and markings are uniform and properly coordinated.

The only change that riders should notice is the improvement in service that results from dealing with bus companies that stand to profit by building a large and satisfied clientele.

4. What to Do with the Savings

Experience with privatization in other cities suggests that annual savings of $40 million or more -- from a budget now approaching $140 million (Figure 3) -- can be expected from the implementation of SB 164.

The bill outlines several ways of "coping" with this happy problem. The General Assembly will decide whether to devote the savings to other forms of rapid transit development or use then to provide tax relief. (Para. 32-9-119.5(9).

The bill also establishes an oversight committee of legislators and appointees of the governor to monitor RTD compliance with the legislation. (Para. 32-9-119.5(10).

EVIDENCE THAT THE CONTRACT APPROACH WILL WORK

The evidence, both local and national, suggests that privatization works. Where competition is introduced and public transit monopolies broken up, costs go down and the level of service goes up.

Stapleton Mass Rapid Transit: A Local Success Story

Denver's Stapleton International Airport is one of the world's busiest. Tens of millions of passengers use it every year. The rapid growth at Stapleton has caused significant parking problems. One of the solutions has been to open three remote parking lots. Two of the lots are open to the general public; the third is reserved for Stapleton employees. The distance between the lots and the terminal means that they must be served by a bus shuttle service.

The shuttle service is managed by a public entity, the City and County of Denver. It operates under the name Stapleton Mass Rapid Transit, or SMART for short. SMART is not only an acronym. It is also highly descriptive of the way in which the city handles its mass transit business.

To say the shuttle service is an example of transit on a mass scale, is no exaggeration. According to Dorothy Harris, the city official who supervises SMART, the shuttle carries 1.2 million passengers per month on its 41 vans and buses. That's 14.4 million boardings per year. By comparison, RTD carries about 40-45 million passengers a year on its 762 bus fleet. Clearly, both agencies are in the mass transit business. But beyond that point, comparison between the two agencies breaks down. SMART is mass transit along the lines suggested by SB 164. Privatization is a given; services are regularly put out to bid. Costs, including labor, are under control. Service is excellent. And SMART generates profits, not deficits, for the public agency that oversees the entire operation. The contrast with the dismal situation at RTD could scarcely be more dramatic.

The City of Denver puts the SMART contract out to bid every three years. Before 1985, Allied Aviation and Maintenance had the contract. However, Allied lost the contract to a company called DynAir in 1985. The City, by its contract, controls schedules, routes, performance standards, safety, and other essentials relating to service quality. In short, the city administration is now acting in the same capacity as the RTD Board would if SB 164 is adopted.

Competition has worked wonders for SMART's labor costs. On average, RTD pays its drivers $19 - $21 per hour, including benefits. In contrast, SMART is able to maintain a perfectly capable force of bus drivers that are willing to work for about $6.85 - $7.75 per hour, including benefits.

SMART pay scales accurately reflect market price for labor in the transit industry. RTD's grossly inflated wages are made possible only by its exploitation of its status as a subsidized monopoly. SB 164 solves the problem by restoring marketplace discipline.

Rapid is one of SMART's middle names. And its use is well-deserved, judging by the kind of service that Stapleton shuttle bus patrons receive. Study after study shows that a long waiting period between buses turns more potential users against mass transit than any other single factor. Obviously, the way to minimize waiting times is to run lots of buses.

SMART's low operating costs permit it to do that. According to administrator Dorothy Harris, SMART patrons never wait for a bus to appear in the shuttle parking lot. At least one is always there. Night or day. Seven days a week. When a patron steps on board, he or she is immediately whisked to the terminal. Cost containment makes SMART patrons the beneficiaries of the kind of service that is expected from a taxi, not a bus.

RTD's bloated overhead makes this level of service inconceivable for its customers. When you are paying two to three times the market price for labor, you simply can't afford to run the number of buses required to keep passenger waits to an acceptable minimum.

Stapleton Mass Rapid Transit is proof that privatization works. SMART very closely follows the pattern laid out in SB 164. Consumers and taxpayers are miles ahead when a government mass transit agency buys services at competitive prices through a competitive bidding process. If the City of Denver can get SMART, why can't RTD?

Privatization in Other U.S. Cities

The evidence from other U.S. cities suggests that Denver's happy experience with privatized mass transit is not a fluke. Lower costs and improved service are the consistently noted results from competitive contracting of public transit.

Lower Costs: Competitive costs are lower than public costs by an average of 30%. Cost savings have ranged from 10 to 60 percent (Teal, Giuliano and Morlok, 1986; American Bus Association, 1987). For example:

- In Los Angeles, three large contracts have recently been awarded, with savings from 37 to 50 percent.

- In Houston, private park and ride service is operated for 33 percent less than public costs.

- In Seattle, private express service is operated for 37 percent less than the previous public costs.

- In Chicago, privately provided service for the disabled is operated at costs savings of more than 50 percent.

- In Fort Wayne, the most expensive work runs have been competitively contracted, generating savings with which previously cancelled services have been restored.

Improved Cost Control: Competitive costs rise less steeply than non-competitive costs. This has been demonstrated in a number of California contracts and in Houston. Competitive costs have generally risen at or below the inflation rate, as has been the experience in the private bus industry generally.

Improved Service Quality: More and more, there are reports of improved service quality under competitive contracting. This impact has been noted in Los Angeles and Seattle. Similar experience has been noted at London Regional Transport. (Wendell Cox Transportation Consultancy, University of Wisconsin, 1987)

CONCLUSION

The Regional Transportation District is a bleeding wound on the Denver area economy. The day when its bleak record could be overlooked as a minor blemish on an otherwise vibrant economy is past. In our present straits, we can no longer avoid the luxury of dead weight.

Happily, however, the means for improvement are well within our grasp. Competition, so fundamental to America's economic well-being, can turn things around at RTD. SB 164 breaks up this publicly subsidized monopoly and restores marketplace discipline.

By contracting out, costs, deficits, and taxes can be cut. Service can be improved. Experience as near at hand as Stapleton Airport clearly indicates that privatization and competition are the keys to solving our mass transit woes.

Dreamers look at RTD's record and imagine that things will get better on their own. They will ask if we can afford to take the risks that accompany change.

Realists look at the same record and see that things have gone from bad to worse. And they will ask if we can afford not to take the risks. The 18 co-sponsors who have signed onto Senator Terry Considine's legislation in the State Senate -- themselves enough to pass the bill and send it to the House, where another 18 co-sponsors have come forward -- apparently agree.

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rev. 7/97