

THE WRONG WAY TO REINVENT PUBLIC TRANSIT PROGRAMS

The Federal Transit Administration (FTA), the branch of the Department of Transportation responsible for administering mass transit programs, obviously has not taken to heart Vice President Al Gore's attempt to reinvent government. The FTA proposes to eliminate a transit policy that encourages the use of the private sector whenever possible. Ironically, it wants to do this in the name of giving local governments more flexibility when making spending decisions. Yet, if the new FTA policy is implemented, public sector spending is almost certain to go up as localities find it easier to justify public provision of transit service while passing over private providers.

The proposed policy contradicts the legislative intent of the FTA's founding charter. Under the Federal Transit Act of 1964, the Department of Transportation (DOT) is required to ensure, "to the maximum extent feasible," that an FTA grant recipient "provides for the participation of private enterprise." This "Private Enterprise Policy," as it is known within the agency, was reinforced and extended in FTA policy guidelines adopted in 1984 and 1986. In general, the policy requires that localities consult with private providers early in the decision-making process and conduct periodic reviews of service delivery to insure cost-effectiveness. Localities also must adopt a pricing system that accounts for all costs and establish a dispute resolution mechanism for those who object to contract decisions. The current policy does not require localities to choose private providers.

The FTA last November notified the public in the *Federal Register* that it intends to scrap this policy and requested comment, as it must do, by law, before changing regulations. Under the proposed guidelines, localities no longer will have to review local transit services periodically to see whether private sector alternatives would be more cost-effective. Localities considering how to provide a service no longer will be required even to estimate all factors involved in the provision of transit services before they obtain an FTA grant. Instead, under the proposed change, they will be able to use any costing method they wish, with the likely result that public sector costs for new transit services will be underestimated. Finally, the mandated dispute resolution process will no longer be required, so private sector applicants will not have an opportunity to demonstrate they can do a better job at a lower cost. Clearly, this new policy is at odds with the original legislative intent of the FTA.

Conflict Within the Ranks. In addition to violating legislative intent, the new policy is a slap in the face to Vice President Gore's National Performance Review (NPR), the commission which looked at ways to make government more efficient. David Osborne, senior advisor to the NPR, has written to Transportation Secretary Federico Peña, declaring: "the Private Enterprise Policy is indeed a model program," and that eliminating it would be a mistake. Senate Majority Leader George Mitchell (D-ME) also has written to Peña, stressing that "competition between public and private transit providers helps constrain costs, which is particularly important given the large gap between available funding and demand for transit assistance." Peña has received similar letters supporting the current policy from Baltimore Mayor Kurt Schmoke and San Francisco Mayor Frank Jordan.

A new policy with fewer requirements for private sector involvement will mean higher costs for taxpayers. Several studies indicate that private involvement can lower costs and improve quality:

A 1991 KPMG Peat Marwick study of the privately operated transit services of the Denver Regional Transportation District found long-term cost savings of 25 percent to 31 percent. Service quality was also found to be superior.¹

A 1992 Price Waterhouse study of bus service in Los Angeles found that the routes operated by a private sector provider cost 60 percent less than those operated by the public sector transit provider. Once again, service was found to be superior.²

A 1991 study of over a dozen privately operated transit services by Roger Teal of the University of California-Irvine found similar savings."³

One Step Forward, Two Steps Back. If the Clinton Administration permits the FTA to change the current policy, it will be a setback for Gore's efforts to streamline government, and for taxpayers. It would be ironic if one of the first examples of "reinventing government" under Clinton took the form of discouraging the use of more efficient private contractors.

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- 1 KPMG Peat Marwick, *Denver RTD Privatization Performance Audit Update: July 1990-June 1991: Final Report*, November 1, 1991.
- 2 Price Waterhouse, *Bus Service Continuation Project: Final Report*, January, 1992.
- 3 Roger R. Teal, "Issues Raised by Competitive Contracting of Bus Transit Service in the USA," *Transportation Planning and Technology*, Vol. 15, 1991, p. 391-403.