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"Organisational Options for Public Transportation in the U.S."

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ABSTRACT

Organizational Options for Public Transportation in the U.S.

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Transit organizations are coming under increasing pressure to change in response to financial, demographic, public scrutiny, and responsiveness concerns. The public sector monopoly on providing public transportation service in major metropolitan areas, which has been the norm for the past twenty years, is now recognized as just one of a range of organizational options, and experimentation with alternative arrangements is now well underway. While no single dominant alternative to the traditional structure has yet emerged, several possibilities can be distinguished. One strategy is based on separation of policy and strategic planning from the day-to-day operation of the transportation system, with different organizations being assigned these responsibilities. A second strategy (these strategies are obviously not necessarily mutually exclusive) is to use more than one operating agency to provide service, with the operating responsibilities defined either geographically, or through competitive bid. Principal aims of these forms of reorganization are to avoid the diseconomies of scale which may exist in large transit authorities, to increase responsiveness, and to introduce the threat of competition as a factor in determining the cost of providing service. This paper reviews the possible alternative organizational arrangements and presents the advantages and disadvantages of each.

Introduction

Transit organizations in the U.S. are currently typically publicly owned and operate without benefit of competition from other public transport providers. However in reviewing organizational options for the U.S. transit industry it is important to recognize that in many cities this organizational arrangement is of fairly recent vintage. Many private operators of transit service struggled through the fifties into the late sixties or early seventies before being absorbed by regional transportation authorities. Although the experience with the public transit ownership and service monopoly is relatively short, there are several sources of discontent with this arrangement which are resulting in increasing pressures to consider alternatives.

Financial and economic concerns are often the strongest source of dissatisfaction with the status quo. Numerous studies have concluded that over the past twenty years efficiency and productivity in the transit industry have declined markedly, with two causes most frequently cited. First, the level of federal funding for both capital and operating expenditures has increased significantly over this period, perhaps reducing the incentive for managers to strive for maximum efficiency. Second, the typical absence of competition and presence of public ownership may foster poor management practice. In specific cities (notably Boston and Pittsburgh) budget crises caused by revenue shortfalls and/or fiscal management deficiencies have led to either radical internal reorganization or external intervention in the authority's management prerogatives.

Another type of financial pressure is the desire to build a new rail system. In several cases new agencies have been created to obtain financing for the project, and in some cases (San Diego, for one) the overall organizational structure for providing transit in the region has been changed as a result.

Still on the financial front, in the past decade, as the federal government has sought, successfully to some extent, to reduce its role in financing transit, state government's role has typically increased. This role shift may foreshadow organizational change producing a stronger state role, as is already evident in Connecticut and New Jersey.

In cases where the transit agency is a direct element of the city government, these increasing financial pressures may lead to the municipality choosing to divest the transit agency. In both San Diego and Dallas, oversight agencies were created and the transit properties assets transferred to these new agencies. Other cities are also considering such options.

A second principal cause of pressure to change results from changing demographics highlighted by the shifting balance between the suburbs and the central city. Frequently the public transit authority was established with ongoing financial support from the region as a whole. While the suburbs typically receive some service, the suburban perception is frequently that the suburban tax base is supporting transit service primarily in the central city. These concerns have increased as costs and subsidies have escalated over the past decade and were instrumental in the creation of "superagencies" above the existing transit operator in Chicago, Los Angeles, and Minneapolis. In other cases concerns about inequitable treatment have led to suburban jurisdictions withdrawing from transit authorities and starting their own small systems.

A final example of pressure to consider alternative organizational arrangements is a perceived lack of responsiveness on the part of the transit agency to suggested changes in service design, cost control mechanisms or funding arrangements.

In light of these concerns serious consideration is now being given to alternative organizational arrangements, although no single alternative is yet seen to be most effective. At this point the following five organizational options can be defined:

1. Classical Regional Transit Authority;
2. Extended Regional Transit Authority;
3. Split Policy and Operations Responsibilities with Single Service Provider;
4. Split Policy and Operations Responsibilities with Multiple Service Providers;
5. Deregulation: the UK Model.

As with many classification schemes, not all authorities fit neatly into one these five classes, however these models are useful in clarifying the choices which may be available in a region.In the following sections of this paper each of these organizational models is described in more detail with its advantages and disadvantages summarized. Finally the issue of bringing about organizational change is briefly discussed.

1. Classical Regional Transit Authority (RTA)

The RTA was the typical initial organizational configuration of publicly owned transit in the U.S., and it remains the dominant form today, despite the concerns associated with it described in the introduction. Its key characteristics are:

- o service is operated directly by RTA employees;
- o management is responsible for both policy making and operations;

- o operating mandate is limited primarily to conventional transit modes;
- o the agency plays little (if any) role beyond transit.

Considering the evolution of the RTA from the typical pre-existing model of private operators functioning within a regulated environment, it is fairly obvious why each of these characteristics exists. The roles of the private operator and public regulator were simply merged into the public authority, and consolidated to take advantage of (supposed) economies of scale.

Furthermore there are some clear advantages of this model over the others, many associated with its simplicity of structure. There should be clear accountability with this structure since a single general manager (or executive director) has responsibility for all facets of the system. There is no excuse for lack of coordination between different departments or different services or for conflict between policy and operations. From the public's perspective there should be a strong and coherent image for the transit system which may translate into greater public awareness and higher ridership. Finally there may be real savings in administrative costs associated with a single entity having full responsibility for transit, although this is most likely to be a significant factor only in small metropolitan areas.

Arrayed against these advantages are a set of potential handicaps with the RTA model, most of which revolve around the agency being in the public sector and being at risk of losing sight of its *raison d'etre.* There may be little or no incentive for management to be concerned with increasing efficiency or productivity as long as adequate funding is available. Both labor and elected officials may be able to influence management decisions in the direction of decreased efficiency, since evaluation of management is likely to be more subjective than objective. A problem which may result from the integration of policy-making and operations in a single agency is that the agency may not devote enough resources to policy questions or to long range planning or strategy development. What little long range planning that does exist may be focussed exclusively on rail system construction which can have high visibility both politically and in other respects. The absence of public transportation competition for the typical RTA can allow the operator to pay little attention to the needs of the passengers, and the public as a whole, and to see the objective as running vehicles (buses or trains) more than carrying passengers and providing mobility. Consequently the agency may see little reason to

attempt innovation and actively resist proposals for change, and the riders may perceive the agency to be remote and unresponsive.

Even without changing the basic RTA model, various initiatives have been made to improve its function particularly with respect to improving efficiency -- perhaps the single most widespread criticism of this organizational form.

Probably the most interesting attempt to increase efficiency was in Boston in 1981 when "management rights" legislation was passed by the Commonwealth of Massachusetts returning to MBTA management many "rights" which management had been unable to exercise previously because of negotiated labor contracts. The rights restored were far-reaching, including the right to hire, without restriction, part-time employees, the right to assign overtime to specific employees, the right to contract for goods and services, and the elimination of the cost of living allowance, which was part of the operators contract. This landmark legislation was enacted in the wake of a series of negative articles on the high cost and low efficiency of MBTA service, and in the midst of a system shutdown due to the exhaustion of available funding for the system. Since its passage, the legislation has successfully withstood extensive court challenge, and has been used by MBTA management to achieve substantial cost savings -- estimated at a total of $118 million over its first five years.

In this case, with the help of legislative intervention, real efficiency improvements were made without any fundamental changes in organization structure. However its value as a general strategy may be extremely limited since several attempts to emulate it elsewhere in the U.S. have met with little, or no success. It appears that the critical element present in the Massachusetts case was the crisis situation created by the budgetary shortfall at the time the legislation was enacted.

A more general approach to increasing efficiency focuses on making changes within the agency to counteract the tendency to inefficient operation. Such changes typically will emanate from management studies or from changes in top management personnel. Clearly in any agency changes can be designed to improve its functioning; however the critical, and as yet, unanswered, question is how effective these initiatives can be in the absence of more fundamental changes in organizational structure.

2. Extended RTA

While the classical RTA model is still most common for U.S. transit properties, some have evolved to different organizational arrangements while still retaining many of the facets of the RTA. These extended RTAs all retain the integrated policy making plus operations role for the core conventional transit services, but define their role more flexibly, and often more broadly. Since the manner of extension varies among agencies, it is easier to give examples of extended RTAs than it is to characterize them all.

The first, and most limited extension of the RTA model simply recognizes that not all public transportation markets in the region may best be served by the regional authority, and hence other operators are encouraged to fill new markets or to replace existing services in which the RTA would be at a disadvantage. Perhaps the best example of this strategy is the Washington D.C. property WMATA, which has cooperated with suburban jurisdictions who have initiated their own independent local bus services. Thus in the overall region WMATA now plays a diminished role in public transportation service provision, but has succeeded in maintaining broad support for its critical core public transportation role focussed on the new rail rapid transit system. By selectively withdrawing from high cost and low productivity suburban services, WMATA costs can be kept down on the one hand, and the potential for friction between the suburbs and the central city, so evident in some other metropolitan areas, can be reduced, if not eliminated. The WMATA strategy can also be seen as concentrating their resources on those markets which large public transportation authorities have traditionally been able to serve well, and leaving other, more marginal markets to lower cost providers.

A second class of extensions to the basic RTA model follows the same rationale of permitting other operators to provide some services, but differs in one important respect: the RTA retains overall control in terms of funding and policy making so that other service providers operate under contract with the authority. A clear example of this strategy is in the Boston region where the MBTA retains direct operating responsibility for the core rail and bus system, which provides the great majority of revenue passenger service, but contracts with different organizations for operation of commuter rail service, non-conventional suburban bus services, door to door service for the elderly and handicapped, and commuter boat service. Contractors include private companies and other governmental units, and many contracts result from competitive procurement of operating rights. The MBTA's role is to conduct the competitive procurement, to determine service characteristics

and to ensure overall coordination of the system, as well as to provide budgetary and management control.

The third type of extension is in response to the perception that the classical RTA has a narrow view of the mandate and definition of the public transportation system. By redefining the responsibilities of the RTA, the agency many be able to consider a wider range of services better tuned to the true needs of the population in the service area. Seattle Metro is the prototypical "market driven" organization which has been restructured so as to be more responsive to its service population. For example Metro took over the ride-sharing brokerage role in the Seattle region, and is actively involved in market research aimed at understanding the mobility needs of its population so that it can design appropriate new services. Metro is also much more active in land use and development planning and regulation than the typical RTA, recognizing that its mission includes fostering development types which can more readily be served by transit.

While these three models for extending the simple RTA have some important differences between them, they are all aimed at overcoming some of the limitations of the simple model without forgoing its most important advantages. However, these strategies do entail risks. First of all, particularly in the second and third cases, the organization becomes quite a bit more complex and the management difficulty increases correspondingly. As the mandate and scope of the authority changes, the already difficulty problem of measuring performance becomes even greater. Finally as the types of options and actions the agency has in its portfolio increases, the setting of priorities becomes harder.

3. Split Policy and Operations Responsibilities with Single Service Provider

In this, and subsequent, organizational models, the key difference from the earlier two forms is the clear separation of the policy-making function in one agency and the operations responsibility in one, or more, other agencies. Such separation may well be a logical precursor to thinking more broadly about the appropriate role for transit and identifying the best vehicles for achieving specific policy objectives. Interestingly, separation of policy making from operations is commonplace in Canada, while it is rarer in the United States. In many Canadian metropolitan areas, policy boards establish critical policies such as goals, and objectives and standards for transit service, and separate operating agencies implements them. In this specific version of the split policy and

operations responsibility model it is assumed that only a single service provider exists, or that separate, non-competing operations co-exist.

Typically, in this arrangement, the policy board would be responsible for defining the service area, for establishing objectives such as farebox recovery ratio which the operator must meet, and for defining measures of performance by which the operator will be evaluated. In most cases the policy board will also be responsible for capital investment planning and overall strategic planning. The service provider, in addition to operating the vehicles, is also responsible for marketing, service and operations planning, workforce management and vehicle maintenance.

There are several potential advantages of this organizational arrangement over the integrated RTA models. First, the policy board can act as something of a buffer between the political system and the operator, which may reduce the direct political input into operations. This in turn can allow the operations staff to focus more directly on providing effective and efficient services rather than dealing with political initiatives. Since the policy board is sheltered from the daily challenge of running service, it should deal better with the longer range planning and programming tasks which often get second billing within an integrated RTA. Finally, if the policy board does its job well, the service provider should have a clearer set of goals, objectives, and constraints to deal with than in the integrated model.

Of course, the hope is that most of the basic advantages of the integrated RTA model would be preserved despite the split between policy-making and operating agencies. However a new difficulty which is created is defining the boundary between the responsibilities of the policy board and the operating agency. For example in the area of planning, the split between long range and short range planning may be hard to define. This leads to two possible dangers, on the one hand things may fall between the cracks, if neither agency is given clear responsibility, while on the other, wasteful duplication together with potential conflict may arise if both agencies feel they have responsibility. In this model, as opposed to the next one, this danger is not as great simply because there should be a good cooperative working relationship between the agencies because of the absence of a real threat of the policy board replacing the current operator with another operator.

Another weakness of this organizational arrangement is the difficulty of transitioning to it from the integrated RTA model. In the absence of significant outside intervention it

is very unlikely that an existing RTA would voluntarily split into two, despite its apparent advantages, simply because of the diminished authority and responsibility for existing management and board members. This issue of transition between alternative organizational arrangements is addressed further in a later section of this paper.

Two very different examples of this organizational arrangement in the U.S., each with multiple service providers, are in the New York and San Francisco metropolitan areas. In the New York region, the Metropolitan Transportation Authority (MTA) is the separate policy board which has a set of subsidiary agencies to operate the service including the New York City Transit Authority, the Long Island Rail Road and Metro North. The MTA sets policy for all operators, allocates operating and capital budgets across operators, and is the unified voice of transit in the region in the public forum in terms of financing and other policy questions. It is important to recognize that while there are multiple operators, they are all MTA subsidiaries and operate in essentially separate geographic markets. Thus there is little direct competition between them, and none face a threat of losing their operating authority if they perform poorly. For these reasons, there is excellent cooperation between the MTA and the operators and little, if any, duplication of function.

In the San Francisco Bay area, the Metropolitan Transportation Commission (MTC) is the separate policy board, but the multiple transit operators, including the Bay Area Rapid Transit and the San Francisco Municipal Railway, are all independent agencies. In this case the MTC acts as a watchdog agency, evaluating performance of each operator and striving for coordinated policies among agencies in terms of service design and fare policy. In addition MTC has a role in distributing funds to each operating agency.

Clearly in these large metropolitan areas with multiple public operators, there is a greater need for an overall policy board than in cases of a single operating agency, but the ability of the policy board to have any significant impact on the efficiency of the operators is very much an open question. Only in the final two models is inefficiency, the fundamental weakness of the first three organizational models, directly addressed.

4. Split Policy and Operations Responsibilities with Multiple Service Providers

This organizational arrangement makes explicit the role of the policy board not only in policy-making, but also in shifting operating authority between an existing service provider and a new one. The policy board may directly use competitive bidding to select the service provider, or may use the threat of competition to encourage existing service

providers both to be responsive to the market, and to be concerned about their efficiency and productivity. As opposed to the alternative split policy and operations model, the policy board is responsible for contracting with individual service providers, for monitoring and oversight of their services and for allocation of financial support among providers. The board may also absorb certain functions such as customer information systems to ensure a uniform and coordinated perception of transit service independent of who is providing it.

The major advantage of this organizational arrangement is the potential for improving efficiency through competition or with the threat of competition. It also clarifies the relationship between the policy board and the operators, placing the power and authority clearly with the policy board.

On the other hand a set of new, real or perceived, problems are introduced with this model. First is the difficulty of contracting with operators and providing effective oversight and monitoring -- there is the potential for problems, at least initially while the policy board is developing this new capability. Second the accountability becomes less clear: ultimately the policy board is responsible for service quality, although in the short run this is clearly the service provider's responsibility as well. There is the potential for some duplication of functions both between service providers and with the policy board. As the number of operators increases, the difficulties of effectively coordinating the overall system, and making it appear as a unified public transportation system both increase. Finally if the objective of improving efficiency is to be achieved, there have to be enough operators either already in the market, or willing to enter, for the threat of authority removal to be real. Furthermore when the service provider is replaced, the transition must be accomplished without serious disruptions in service quality or effectiveness.

It may well be that this organizational arrangement is the most difficult one to implement successfully, although the resulting benefits are likely to be the greatest if success is achieved. There are several interesting examples of organizational arrangements which, at least, approximate this model, including the metropolitan areas of San Diego, Phoenix, Dallas, Los Angeles, Chicago, and Minneapolis. The experience with each of these initiatives is briefly reviewed below.

In San Diego the Metropolitan Transit Development Board (MTDB) was created by an act of the California state legislature in 1975 to plan, build, and operate an urban rail system as well as to undertake near term planning and programming. Since then MTDB

has become the coordinating agency for the region, establishing policy, contracting with transit providers, and taking responsibility for both financing and short range planning for both bus and rail models. MTDB owns the assets of the major bus operator (San Diego Transit Corporation) and the light rail operator (San Diego Trolley), but also contracts with private providers as appropriate.

In Phoenix the Regional Public Transit Authority (RPTA) was created as a result of a 1985 referendum to create local transit funding, plan routes, and contract for service. RPTA, a voluntary association of local government officials currently contracts with the Phoenix transit department to manage bus service and to prepare technical plans, although the intent is to transfer these functions to RPTA eventually.

In both San Diego and Phoenix, new organizations were created to mount an area wide financing effort as well as to promote major capital investments and or operational improvements. Given the existence of the new organization, several organizational evolutions may occur, including the acquisition of one or more operating agencies by the policy board. It remains to be seen if this strategy will lead to the elimination of the benefits initially sought by the creation of a separate policy board.

The Dallas Area Rapid Transit (DART) was created to provide for the regional transit system. Its initial efforts were to contract with a new private provider for the operation of new express services, however, recently DART has acquired the previously city-owned Dallas Transit System. The intent was to achieve better control over administrative and operating costs, to improve service efficiency, and to improve service quality. Once again the effect of this service provider acquisition is to move back to an RTA type of structure, with the associated advantages and disadvantages.

The Los Angeles County Transportation Commission (LACTC) was established by an act of the California state legislature in 1976 as an overall funding and coordinating agency for public transport and highways in Los Angeles County. LACTC's major focus has been the creation of a stable funding base for transit, coordination of municipal and regional transit services, and the design and construction of a light rail system. Somewhat uneasy relationships have recently existed between the LACTC and the largest public transport provider in the region, the Southern California Rapid Transit District (SCRTD), and the long term stability of the existing organizational arrangement remains in doubt.

In Chicago the Regional Transit Authority (RTA) was established to set policy, coordinate suburban operations, and allocate transit funds within the six county greater

Chicago region. The RTA used its authority to acquire and operate transit service in the suburbs with mixed success. In 1983 as a result of financial problems in providing transit service, the Illinois legislature re-asserted the policy role for RTA, and increased its oversight responsibility by creating three transit operating subsidiaries, including the Chicago Transit Authority.

The final example of this organizational form is in the Minneapolis-St. Paul metropolitan area. In 1984 the Regional Transit Development Board (RTB) was created by an act of the Minnesota state legislature to allocate transit funds, plan service, and contract for the operation of service with both public and private operators as appropriate. The expectation was that the publicly owned transit property, the Metropolitan Transit Commission (MTC) would continue to operate most central area services, although RTB also had the option of contracting these to private providers. In fact RTB has been ineffective in asserting control over MTC, and has become bogged down in a lengthy planning process. Those expecting fast and decisive action to resolve transit problems in the region have been disappointed, and the long term prospects for the RTB are unclear.

What is striking about these initiatives to separate the policy-making and operations roles with respect to transit, is how unstable they appear to be. There seems to be a strong tendency to consolidate operations and policy in a single organization, with the operating agency being a wholly owned subsidiary. It does not seem likely that the advantages sought by using competition, or the threat of competition, to increase efficiency are achievable with this pattern of consolidation.

5. Deregulation: The UK Model

While there are several intermediate organizational arrangements between the previous model and the model of full deregulation represented by the current UK situation, none of these exist in any major U.S. metropolitan area, and so the deregulation model will be described (briefly) as an extreme. In this model the policy board exists as the sole public organization in each area with respect to transit -- there is no public provider of transit service. Private providers may freely enter any market, and competitive bidding is required for any non-commercial services which are required for public welfare reasons.

The principal advantages of this arrangement are threefold. First, inefficient operators, notably the public provider, should be driven out of business, or forced to become much more efficient, thus reducing costs and subsidies required for essential

services. Second, free entry and unrestricted exit should allow service providers to respond quickly to market changes. Finally, deregulation should encourage innovation in the types of service provided, as each operator strives for competitive advantage.

On the negative side service may be much more transitory -- here today but gone tomorrow, discouraging potential users from making longer term decisions which may depend upon the certain future existence of public transportation service. For example, auto ownership levels, and both job and home location decisions may change without the assurance of continuing transit service, and these decisions may then reduce demand for public transport even if service is provided. The system is also much more attractive if a fair proportion of traditional services either are already profitable, or can be made profitable through a combination of cost reductions and price increases. Finally, price increases which may occur in creating financially viable services, may raise concerns with social equity.

No more will be said about experience with deregulation, since none exists in the U.S., and experience in other countries will be described separately in other papers in this conference.

Organizational Change

Experience in the U.S. supports the premise that significant organizational change, of the type discussed in this paper, is unlikely to occur in the absence of external intervention. Typically intervention has been at the level of the state legislature with new organizational arrangements being mandated by legislative acts. Certainly changes within an organization may be initiated by top management, but changes in the scope of the organization can seldom be accomplished through internal initiative. Similarly the Federal level of government, while it provides significant funding for both transit capital and operating expenses, has been largely unsuccessful in establishing its model of increased competition in awarding operating authority. This initiative has met with strong opposition from the transit industry. At the state level, however, significant changes have been brought about in California, Minnesota, Illinois, and Massachusetts, in some cases in spite of the active opposition of the affected transit properties.

While a reasonable number of organizational changes have occurred in the U.S. transit industry in the past decade, the long term stability of many of these remains in doubt, and there has been little persuasive analysis of the benefits of the changes which

have occurred. Thus the jury is still out on the future organizational arrangements for providing transit service in most U.S. metropolitan areas. While clear dissatisfaction exists widely with the conventional RTA model, and there would appear to be important advantages to other models, actual improvements have not been documented, at least to the point of persuading state level decision makers that a particular alternative form is preferable.

There would be broad agreement that to be effective, an organizational arrangement should provide breadth of vision, be responsive and efficient, and be financially viable. By breadth of vision, the organization should take a strategic view of its mission and be involved not only with alternative urban transport services and systems, but with land use and land development decisions. To be responsive, the organization should be aware of, and sensitive to, the needs of the public, and should be able to offer, directly or indirectly, a range of services. Efficiency means being able to deliver needed services at low cost. Financial viability covers both capital investment, to maintain and extend the system as needed, and funding for ongoing operations. While these desirable attributes are clear, it is by no means clear which organizational arrangement can best provide them in large U.S. metropolitan areas.

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