



Montreal Economic Institute

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The road to renewing public transit

It is difficult to envisage a reform of public transit in Quebec without the spectre of privatization being brandished. Over the last 15 years, however, public authorities in many metropolitan areas around the world have established alternative strategies for developing and managing urban transport without necessarily resorting to privatization. Their success has provided for a renewal of public transit.

These examples should inspire anyone seeking solutions to the problems of public monopolies, which increasingly seem headed toward an impasse in Quebec, especially in Montreal. Despite a 5% budget increase in 2004 – well above the rate of inflation – the STM (Société de transport de Montréal, or Montreal Transit Corporation) is expecting a \$20.4-million deficit for 2004, far higher than its 2003 deficit of \$8 million. Forecasts point to transit corporations in Quebec running a total deficit of \$90 million.¹

In 50 years of existence, the STM has shown an increase of more than 90% in expenses per kilometre operated, even after accounting for inflation.² From 1981 to 2002, the increase was about 20% while the distance operated by vehicles (bus and subway) fell nearly 13% (Figure 1). The cost of urban transit has gone up constantly, while service to users has diminished.

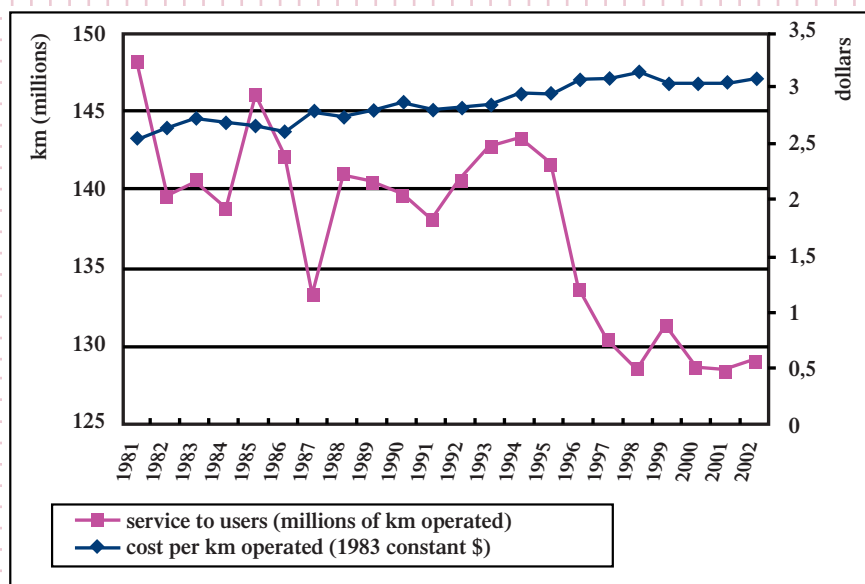
Alternative models for managing urban transit

The fully public management model currently in use in Quebec has increasingly been abandoned in large cities around the world, with public authorities leaning more toward

partnerships with the private sector to provide transit service to their citizens. These alternative models are based on the distinction between two different aspects in the provision of urban transport.

On the one hand, there is the organizational aspect of transit networks and financing of service. In competitive tendering models, public authorities continue to be responsible for transit service – routes, schedules, frequencies, fares paid by users, generated income and indicators of quality and customer satisfaction.

Figure 1: Changes in transit costs and service to users in Montreal



Source : STM (2003), *Données statistiques 1952-2002*.

¹ STM, *Budget 2004*, available (in French) at <http://www.stm.info/en-bref/budget2004.pdf>, p. 9-10.

² STM (2003), *Données statistiques 1952-2002*, available (in French) at http://www.stm.info/en-bref/historique_statistique_1952-2002.pdf, p. 35; calculations by the author.



The other aspect is network operation. This consists of producing trips by keeping buses, subways and trains moving. This has been turned over to private operators (or to public operators, in instances where branches of the former monopoly are authorized to bid), who must compete in a process of public tenders to obtain renewable, fixed-length contracts by offering the best quality/price ratio.

Table 1 : Organizational models for urban transit systems

	ORGANIZATION OF URBAN TRANSIT	OPERATION OF URBAN TRANSIT
PRIVATIZATION MODEL (Buses outside London)	Private operators	Private operators
COMPETITIVE TENDERING MODELS (Buses: London, Copenhagen, Stockholm) (Subway: Stockholm, Lyon)	Public authority	Private or public operators
FULLY PUBLIC MANAGEMENT MODEL (Buses and subway: Montreal)	Public authority	Public monopoly

authorities are able to choose from among several operators with varying quality/price ratios. They can also select the project that corresponds most closely to their goals.

Second, the public authorities can take advantage of the expertise provided by private operators in terms of managing the “production” of trips and operating risks. In fact, there are private groups that manage the trips of millions of per-

sons in various parts of the world and who keep thousands of buses and subway trains moving. This sharing of roles and responsibilities enables public decision-makers to focus on service improvements (greater frequencies, more routes etc.), passenger loads and fare income.

With privatization, both aspects are handled by the private sector. In contrast, competitive tendering models, although quite varied in reality, lead to public efforts being focused on an organizing role, while operations are delegated to the various contractors (see Table 1). These models, unlike privatization, in no way involve potential overlaps in bus routes where more than one operator could offer the same service. From this standpoint, the urban transit network would not change.

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Competitive tendering clearly requires highly detailed and sometimes costly transportation contracts. The numerous international experiences have made expertise in this area widely available. Far from being a drawback, these contracts provide for better management and a clearer definition of responsibilities.

These competitive tendering models offer a number of advantages. First, through the bidding process, the public

Finally, users benefit because competition in winning and retaining transportation contracts in a given geographic area provides incentives for operators not only to control their costs but also to offer more punctual and reliable service. Transportation contracts generally, as in Copenhagen, provide for a share of financing of up to 5% of the total budget being linked to the operator’s performance. This remuneration depends on the results obtained in terms of reduction in costs, improvement in punctuality, reliability of service, cleanliness of vehicles, friendliness of drivers, etc. Provisions such as these give companies incentives to remain competitive and help win renewal of their contracts.

The international experience

This logic of competitive bidding is not something out of science fiction, and there is no shortage of examples.³ In Europe, for example, competitive tendering is becoming the norm, encouraged by the European Commission. France has

³ For a review of international experience, see the site of Wendell Cox Consultancy at <http://www.publicpurpose.com/utx-usct.htm>.



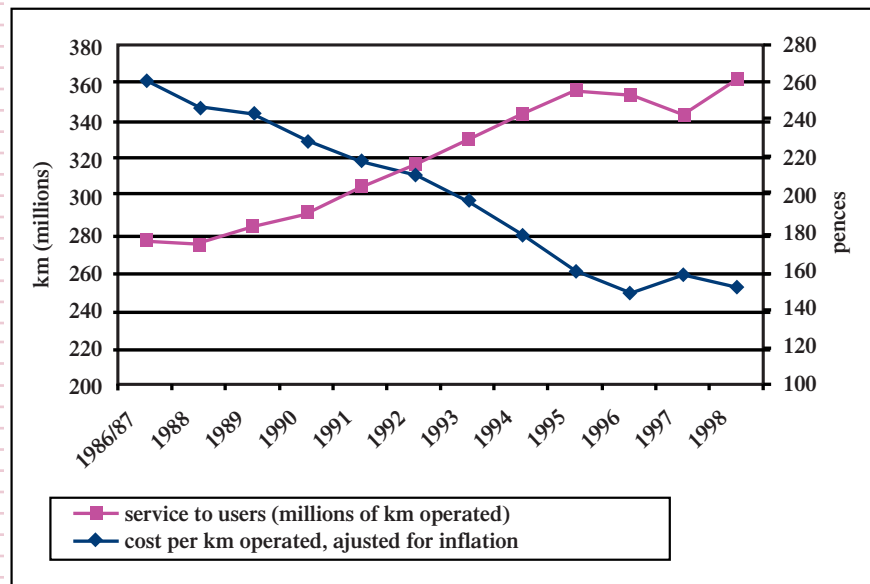
applied this model to public transit over a number of years. Social democratic countries such as Denmark and Sweden have succeeded in reforming their urban transit. Similarly, the United Kingdom, having privatized public transit outside London, has chosen delegation with competitive bidding for bus service in the capital.

In Denmark, a decision by Parliament in 1990 required the public company Copenhagen Transport HT to put 45% of its bus network up for competitive tendering by private firms within five years. This decision aimed to reduce operating costs and to improve the quality and reliability of service. The reform was confirmed in 1995, with an obligation to submit the entire network to competitive bidding by 2002. Costs per vehicle-hour came down by 23.8% between 1990 and 1998.⁴ Even though costs later went up again because of demands from the public authority for higher quality, they remain nearly 12% lower in 2004 than they were in 1990. “The bus fleet was renewed and quality output improved,” according to the public authority, “[...] and the financial situation of Copenhagen Transport was improved remarkably.”⁵

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Similarly, in Stockholm since 1993, operation of all means of urban transit (subway, bus and suburban trains) has been submitted to competition. SL, the public transit corporation, continues to own railway and subway cars, while the various operators possess their own buses. Competitive tendering in Stockholm has brought costs down by 25% and achieved annual savings of about 150 million euros (approximately

Figure 2 : Economic impact of competitive tendering in urban bus transportation in London (1986-1998)



Source : UK Department of the Environment, Transport and the Regions

C\$240 million) for SL. At the same time, service levels have gone up more than 10%,⁶ and ridership levels measured in complete trips rose 14.7% between 1993 and 2002.⁷

In London, bus transportation (more than 6,000 vehicles) was gradually put up for competitive tendering between 1985 and 1994 while remaining under the control of London Transport, the public authority. Thanks to this reform, costs per kilometre of operation were reduced by 42% between 1986 and 1998 after taking account of inflation while service increased more than 30% and ridership more than 11%.⁸ (See Figure 2.)

The Montreal experience

The current public monopoly is by no means the only form of public transit organization Montrealers have known. Private initiatives formed the basis of public transit in Montreal, and it remained in private hands for 90 years (until 1951). Rather than a tax burden, it was a source of income for municipalities since the transportation companies paid

⁴ Data from the Greater Copenhagen Authority, March 2004.

⁵ See *From Copenhagen Transport to Greater Copenhagen Authority*, Transport Division, p. 4, available on the official site of HT, the public authority, at http://www.ht.dk/english/HT_to_HUR.

⁶ K. Janssen (2001), *Legal, organisational and financial framework of local public transport in Europe*, European project MARETOPE, D2, p. 287, available at <http://www.tis.pt/proj/maretope/D2-national%20reports.pdf>,

⁷ SL (2003), *Annual report 2002*, available at http://www.sl.se/cs-media/eng_text/uploads/000008809/sl%5Fannual%5Feng.pdf, p. 42; calculations by the author.

⁸ U.K. Department of the Environment, Transport and the Regions (1999), “Focus on Public Transport, 1999 edition”, available at http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/downloadable/dft_transstats_505659.pdf; calculations by the author.



royalties to the cities. During this period, these companies were financed entirely by their own revenues, and they produced profits. Although the municipality prohibited fare increases for more than 30 years, until the late 1940s,⁹ service to users kept increasing. At the time, public transit was used very heavily, and ridership prior to nationalization in 1950 (more than 370 million passengers carried¹⁰) was just as great as in 2002 (a total of 364.4 million riders on the bus and subway).

Currently, more than 1.1 million inhabitants of the Greater Montreal area are served by and benefit from competitive tendering in suburban bus transportation, guided by about a dozen CITs (Conseils intermunicipaux de transport, or intermunicipal transit councils) or by individual towns. The CITs issue contracts to private companies whose buses ran 19 million kilometres in 2002 and provided 16 million trips.¹¹ There is no difference in principle between suburban and urban transportation. Why not put urban transportation up for competitive tendering since a positive experience already exists in Quebec?

The reduction in operating costs would allow for service to improve and increase, thereby creating more jobs.

Conclusion

Public authorities in Quebec, especially in Montreal, have a good opportunity to reform the current model. As was the case with the European experiences, they would need to create a clear separation of responsibilities and budgets between a body handling organizational functions and another body responsible for operations. In the case of the STM, it would also be necessary to distinguish internally between operating costs for the bus network and for the subway. Such a change would provide in particular for public tenders among various transportation companies.

Adopting this new model of competitive tendering can be done without necessarily jeopardizing the working conditions of current employees. The organizing authorities could open a rising portion of the public transit network (based on employees leaving at retirement) to bidding for bus and/or subway operation. For example, 30% of STM employees and 43% of operations managers will be eligible for retirement by 2006.¹² Instead of hiring new employees on its own account, which would cost it about \$1 million in training,¹³ the STM could let the operators hire and train their own employees. Such reforms could lead to greater hiring opportunities in the public transit field. The reduction in operating costs would allow for service to improve and increase, thereby creating more jobs.

In Montreal, as in other large metropolitan areas around the world, competitive tendering guided by public authorities provides a pertinent way to renew public transit.

⁹ STM (2003), Données statistiques 1952-2002, *Op. cit.*, p. 7.

¹⁰ See *Quelques notes historiques sur la Montreal tramways Company, Complément à l'histoire administrative*, available (in French) at <http://www.stm.info/en-bref/ancetr6b.htm>.

¹¹ See the Bernard Report (2002), whose full title is *Révision du cadre financier du transport en commun au Québec*, Montréal, December, p. 71, available (in French) at http://www1.mtq.gouv.qc.ca/fr/publications/modes/personnes/commun_montreal.pdf.

¹² See STM, *Budget 2004*, *Op. cit.*, p. 13.

¹³ *Ibid.*

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