Submission

to the

Commission on the Reform of Ontario's Public Services

by the

Ontario Motor Coach Association

September 2011

The competitive bus industry is a valuable resource that could be used to materially increase transit riders and reduce public subsidy requirements for transit in Ontario.

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Based upon a survey[1] of bus operators and an examination of available transit cost data, it is estimated that operating cost savings from competitive tendering of GO Transit bus services could reach $50 million in 2013[2]. With service expansions of the order projected in *The Big Move*, the total savings could reach $500 million through 2020. Overall, it is estimated that operating cost savings would be approximately 21% (subsidy savings would be greater).

The total savings would be substantially greater if the program were expanded to include all major transit operators. For example, in Ontario's largest transit system (TTC), if operating costs were controlled through competitive tendering, and increases limited to the CPI, over $100 million would have been saved in 2009 alone - more than the total provincial operating subsidy to TTC. In fact, the experience of competitive tendering indicates that the savings would be even greater.

Inter-city, municipal and regional passenger transportation services need to be maintained, and in fact expanded significantly, to meet provincial goals of reduced emissions from private automobiles and reduced road congestion.

> "Over 85% of Canadians get to work by car. A figure that has not changed in two decades."
>
> *...Macleans Magazine, January 2011, quoting from Statistics Canada*

The current delivery model of monopolistic government operated bus services is not sustainable for current services let alone essential increases in services as required under *The Big Move*. The ongoing drop in productivity (1.2% per year for the last 20 years) along with the massive increases in subsidy (300%) is a trend that, without a new delivery model, will result in:

- reduced services rather than an expansion, or
- doubling or tripling of fares to the passenger, or
- massive increases in subsidy from the province, or
- all of the above.

[1] Survey and analysis independently performed by Demographia | Wendell Cox Consultancy - St. Louis Missouri
[2] Addendum E: Cost Comparison Model

The province has indicated that it needs to:

- reduce the provincial deficit (third highest provincial expenditure), and eventually its debt;
- increase its spending on health and education; and
- limit, or avoid, any increase in taxes.

2011 Ontario Budget Expenditures	
Total	$124 billion
Health	$ 47 billion
Education	$ 23 billion
Interest on debt	$ 10 billion
Transit	$ 2 billion

These needs cannot be met without significant reductions in government spending in areas other than health and education. Provincial transit spending for 2011-12 is budgeted at over $2 billion (excluding federal and municipal subsidies for transit).

The competitive bus industry is a valuable resource that could be used to materially increase transit riders and reduce public subsidy requirements for transit in Ontario. The provincial government can save $500 million in subsidy to GO Transit alone over the next 9 years by taking advantage of the operational efficiencies of a competitive bus industry. These savings can be achieved with municipal and provincial governments controlling all aspects of their respective transit: fares, routes, schedules, level of service and quality of services.

The provincial government must act to implement and force change. Those with a vested interest in maintaining the status quo, those responsible for the drop in productivity every year for the last 20 years and those responsible for the high costs of current operations will oppose any change and attempt to defend their lack of concern for the taxpayer.

> The TTC has to "lower the cost of delivering the current level of transit service, which is among the highest in North America."
>
> *…Michael Warren, former GM, TTC, Toronto Star 2010*

Monopolies have proven that they are not as efficient nor as innovative as a competitive market. In Ontario, municipal transit has been granted monopoly status by the Ontario government and has been given large subsidies. GO Transit has not been granted a monopoly as such but by receiving large subsidies (100% capital subsidy and 20% operating subsidy), being exempt (questionably) from the application of HST, being exempt (questionably) from abiding by some provincial safety standards, and being exempt from provincial licensing requirements, results in no competition in some markets and very limited competition in other markets to the detriment of the taxpayer and the passengers.

ONTC bus services lose money each year and ONTC receives a provincial subsidy every year. The subsidy allows ONTC to quote bus charter rates below market rates and is having the same effect as predatory pricing – forcing tax paying private bus companies out of that business.

As bus companies are forced out of business, Ontario loses investment, tax revenue, jobs and innovative services and pays more for less service.

For the Ontario Government to meet their goals, the OMCA recommends the following:

1. Regional Transit: The Province order Metrolinx to competitively tender, through an independent third party (for example, the Ministry of Finance), the operation of all GO Transit bus services.

2. Ontario Northland Transportation Commission:
    a. That the Province order ONTC to cease all charter bus service as this is discretionary service already being provided by the bus industry in a competitive market.

    b. The Province order ONTC to competitively tender their inter-city scheduled bus services to ensure that provincial taxpayers obtain the best value for their tax dollars.

3. Municipal transit:
    a. The Province ensure that Ontario taxpayers and passengers obtain the best value for the provincial subsidy given to municipal transit, by specifying, as a criteria for obtaining subsidy, that the delivery of the transit service be provided by a competitive market, that is, competitive tendering.

    b. Under special circumstances if, for whatever reason, the transit authority is not willing to provide a service where there is a demand, there needs to be another mechanism under the control of a third party (for example, the Ministry of Finance) to ensure that the demand is met cost efficiently.

Based upon a survey[3] of bus operators and an examination of available transit cost data, it is estimated that operating cost savings from competitive tendering of GO Transit bus services could reach $50 million in 2013. With service expansions of the order projected in *The Big Move*, the total savings could reach $500 million through 2020. Overall, it is estimated that operating cost savings would be approximately 21% (subsidy savings would be greater).

The total savings would be substantially greater if the program were expanded to include ONTC and all major transit operators. For example, in Ontario's largest transit system (TTC), if operating costs were controlled through competitive tendering, and increases limited to the CPI, over $100 million would have been saved in 2009 alone - more than the total provincial operating subsidy to TTC. In fact, the experience of competitive tendering indicates that the savings would be even greater.

1. Purpose of the Submission

To outline alternatives for the provision of transit, commuter and inter-city services that will result in more, enhanced, affordable services at a lower cost to the Province of Ontario.

[3] Survey and analysis independently performed by Demographia | Wendell Cox Consultancy - St. Louis Missouri

2. Provincial Goals

A shift in use from private automobiles to mass transit will assist the provincial government in achieving its stated goals of: reduced road congestion[4] and reduced environmental damage[5] caused by the private automobile. Additionally, the province needs to ensure that residents in rural and northern Ontario have transportation services connecting them to major centers. Because of rising provincial deficits and debt, the Province needs to accomplish these goals in a more cost efficient manner, spending less money and reallocating scarce provincial resources to health and education.

Numerous studies and reports show that road congestion is negatively affecting the economy, including tourism, and quality of life for many individuals.

Transit is an essential service and needs to be expanded, improved and delivered more cost efficiently.

Intercity bus services are essential services connecting rural and small communities to major centers. These services provide transportation for students travelling to university, residents needing health care services in major centers, commuters, those visiting friends and relatives and those that either do not own a car or choose to use the bus mode. As well, charter bus services are a significant contributor to provincial tourism and convention services.

Intercity bus services need to be expanded. The industry is prepared to meet the demand and do so under market forces. Where government is operating such services, they need to be delivered more cost efficiently.

[4] A bus can take up to 56 cars off the road (81 cars with use of a double deck coach) and reduce parking requirements.

[5] Bus transportation, according to Transport Canada, uses the least amount of fuel and produces the least amount of green house gases. See Addendum A.

3. Transit Operations in Ontario

> "Statistics Canada reports the average time spent commuting to and from work … Toronto (is) now up to nearly 89 minutes a day" … "everyone is moving slower: average rush-hour traffic speeds in Toronto declined by 24% between 1986 and 2006". Toronto ranks "dead last" "in commuting times in 19 European and North American major cities" … "Traffic is slowly strangling our cities".
>
> *…Macleans Magazine, January 2011, quoting from Statistics Canada*

With the exception of very small communities, most towns and cities have municipal transit services. There is also a regional transit service (GO Transit) under provincial control in the Greater Toronto Hamilton Area (GTHA).

With minor exceptions, municipalities operate their transit service as a department or commission of the municipality. While it is an accepted economic principle that monopolies result in higher costs and less innovation than a competitive market, municipal transit operates as a monopoly granted to the municipality under the *Ontario Municipal Act* which states in part:

> *"... by by-law provide that no person except the municipality shall establish, operate and maintain all or any part of a passenger transportation system of that type within all of the municipality..".* [6]

For comparative purposes, 99% of all school bus services in Ontario are operated in a competitive environment by the private sector. School bus transportation is very cost effective and is the safest passenger transportation mode according to Transport Canada.

Table 1 shows the growth of ridership, service, revenue and operating costs from 2003 through 2009. Passenger revenues reflect both fare increases and ridership increase. (It should be noted that an increase in ridership can occur without an increase in service: the increase in passengers is filling empty seats in existing vehicles.)

Table 2 shows provincial and total subsidy as well as capital costs. All capital costs of municipal and regional transit are 100% subsidized from municipal and provincial government tax revenues. In some cases the federal government has contributed but not as a rule and generally only on a project basis.

Operating costs are funded by the passenger (60%-80%) with the balance made up from municipal and provincial subsidies.

[6] *Ontario Municipal Act* Section 69 (2) (a)

Table 1: Transit Ridership, Service, Revenue & Operating Costs: 2003-2009 (millions)								
	Regular Service Passenger Trips/Revenue				Service KMs		Total Operating Costs	
Year	Number*	Incr.	Revenue*	Incr.	Number*	Incr.	Total*	Incr.
2003	679.3		$ 1,153.3		367.5		$ 572.9	
2004	702.0	3%	$ 1,214.6	5%	381.9	4%	$ 609.5	6%
2005	726.1	3%	$ 1,284.9	6%	381.6	0%	$ 693.5	14%
2006	750.0	3%	$ 1,358.9	6%	397.9	4%	$ 777.8	12%
2007	779.7	4%	$ 1,431.2	5%	413.2	4%	$ 881.1	13%
2008	796.3	2%	$ 1,537.3	7%	427.8	4%	$1,000.3	14%
2009	787.0	-1%	$ 1,543.2	0%	446.1	4%	$1,147.4	15%
Change: 2003-9		16%		34%		21%		100%

* in millions
Toronto CPI 2003-2009: 10.6%
From: Ontario Urban Transit Fact Book

Table 2: Transit Subsidies 2003-2009 (millions)										
	Provincial Spending*				Other Spending*				Total Prov & Other*	
Year	Oper	Cap	Total	Incr.	Oper	Cap	Total	Incr.	Total*	Incr.
2003	$ 34	$ 277	$ 311		$539	$356	$ 894		$1,205	
2004	$130	$ 252	$ 382	23%	$480	$388	$ 868	-3%	$1,250	4%
2005	$140	$ 342	$ 482	26%	$554	$624	$1,178	36%	$1,660	33%
2006	$174	$ 549	$ 723	50%	$604	$632	$1,236	5%	$1,960	18%
2007	$194	$ 762	$ 956	32%	$688	$593	$1,281	4%	$2,236	14%
2008	$316	$1,092	$1,408	47%	$684	$752	$1,436	12%	$2,844	27%
2009	$260	$1,429	$1,689	20%	$888	$967	$1,855	29%	$3,543	25%
Change 2003-9	665%			342%				107%		194%

* in millions
Toronto CPI Increase 2003-2009: 10.6% (from 103.0 to 113.6)
From: Ontario Urban Transit Fact Book (CUTA and MTO).

Unfortunately, a growth in subsidy has not meant a corresponding growth in service or passengers.[7] Figure 1 graphically shows the relationship of growth in ridership, service and expenditures.

Some transit advocates that have a vested interest in maintaining the status quo lobby for more subsidy to improve and expand transit. The facts suggest that over the past decades more subsidy has not meant more service. For example, the Toronto Transit Commission received $130 million more in operating subsidy and $179 million more in increased fares in 2008 than they did in 2003 - a 61% increase in subsidy and 27% in passenger revenue. But the service provided as measured in "revenue vehicle kilometres" increased by only .000039%. And "labour productivity" decreased 8% over those years. More money does not equal more service.[8] It has meant increased overhead and wages. Close to 1,000 TTC employees made over $100,000 in 2010, including 99 'operators' and 12 'ticket collectors'[9].

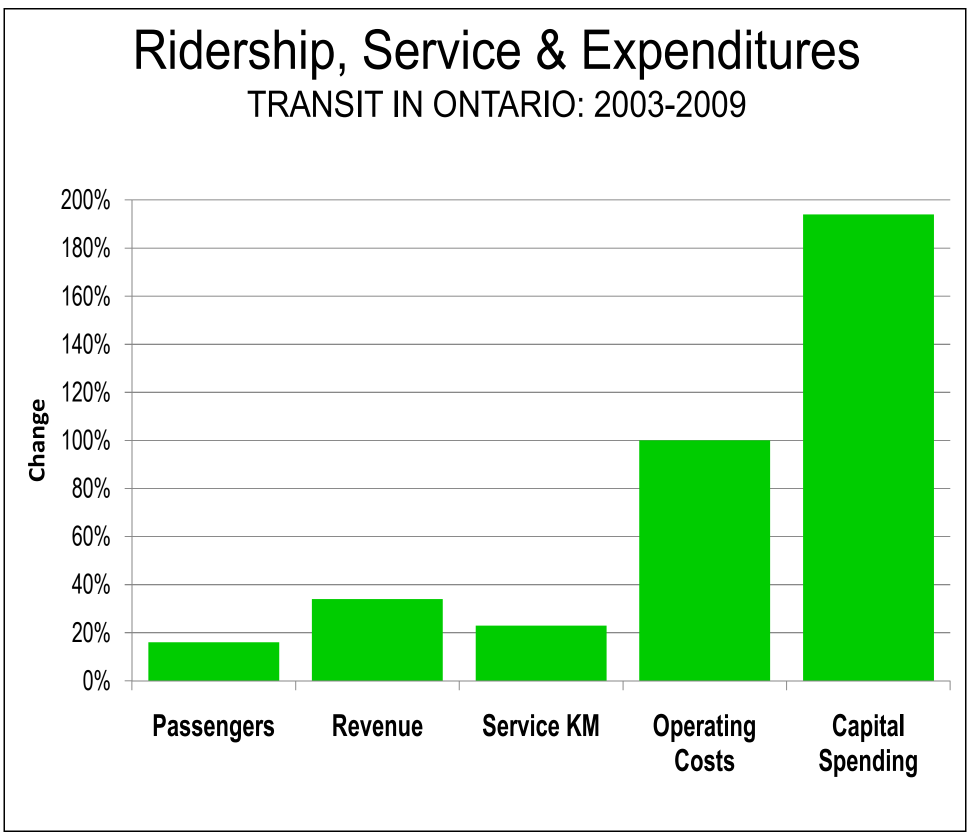

Figure 1 Source: Demographia

[7] Consumer Price Index for this time period was approximately 10.5%
[8] Ontario Urban Transit Fact Book (CUTA and MTO)
[9] Ontario Ministry of Finance, salary disclosure for public servants

4. Transit Productivity And *The Big Move*

The Conference Board of Canada reported that transit productivity in Canada declined for all of Canada 1.2% from 1986 to 2006.[10] Transit was alone among the passenger and freight industries examined in the Conference Board report that had a decline.

The loss of productivity is evident in the Greater Toronto and Hamilton area. Between 1989 and 2009, there was a compound annual productivity loss among the major operators (the Toronto Transit Commission and GO Transit) of 2.4% (measured in passengers per unit of operating expenditure).[11] Operations spending increased 77%, after adjustment for inflation between 1989 and 2009. However, ridership increased only 9%.

> "From 1981 to 2006 productivity grew by 3.6% per year for rail freight, 2% per year for airlines, and 1.8% per year for trucking...By contrast, productivity in public transit declined by 1.2% per year between 1986 and 2006." (emphasis added).
>
> *...The Conference Board of Canada: Productivity Performance of Canada's Transportation Sector, 2010*

To put this in perspective:

- If productivity had been maintained between 1989 and 2009 at TTC and GO Transit, the 2009 spending would have produced approximately 850 million annual transit rides, 60% more than the actual 525 million riders (Figure 2).

- Alternatively, if the 2009 level of ridership at TTC and GO Transit had been accomplished without the loss in productivity, spending on operations would have been at least 40% less (approximately $1.1 billion instead of $1.9 billion (Figure 3).

Improved productivity over these years would have lowered costs which would have reduced the subsidy or made available more money for improved service, resulting in increased ridership.

[10] http://www.conferenceboard.ca/documents.aspx?did=3119
[11] Capital expenditure data is not available.

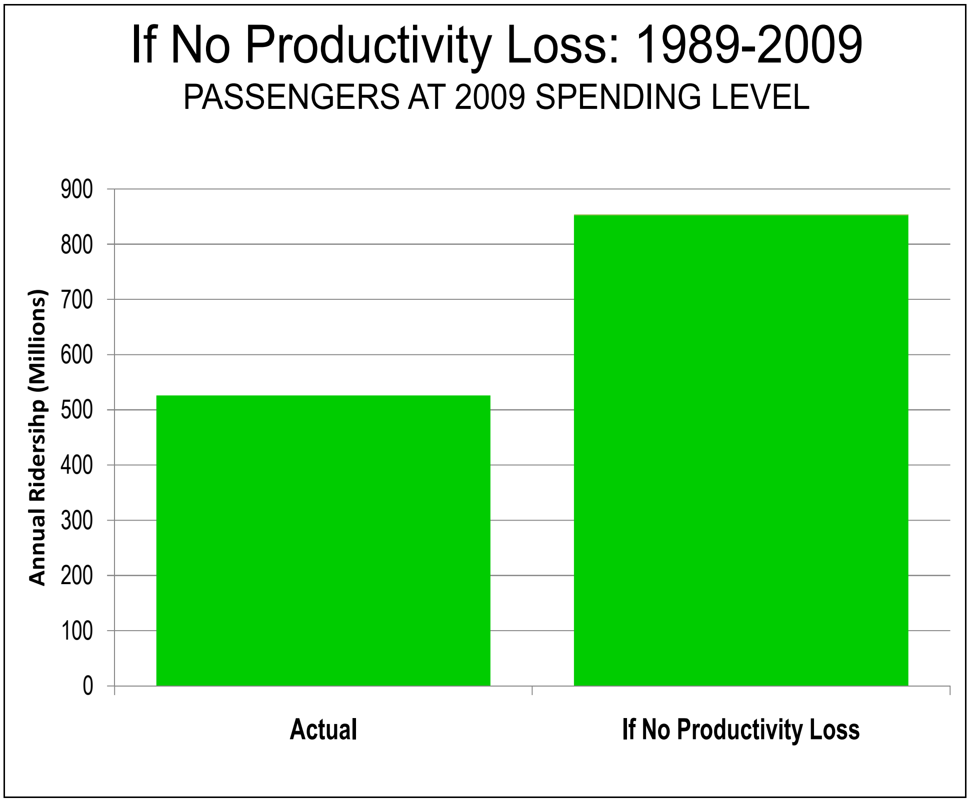

Figure 2 Source: Demographia

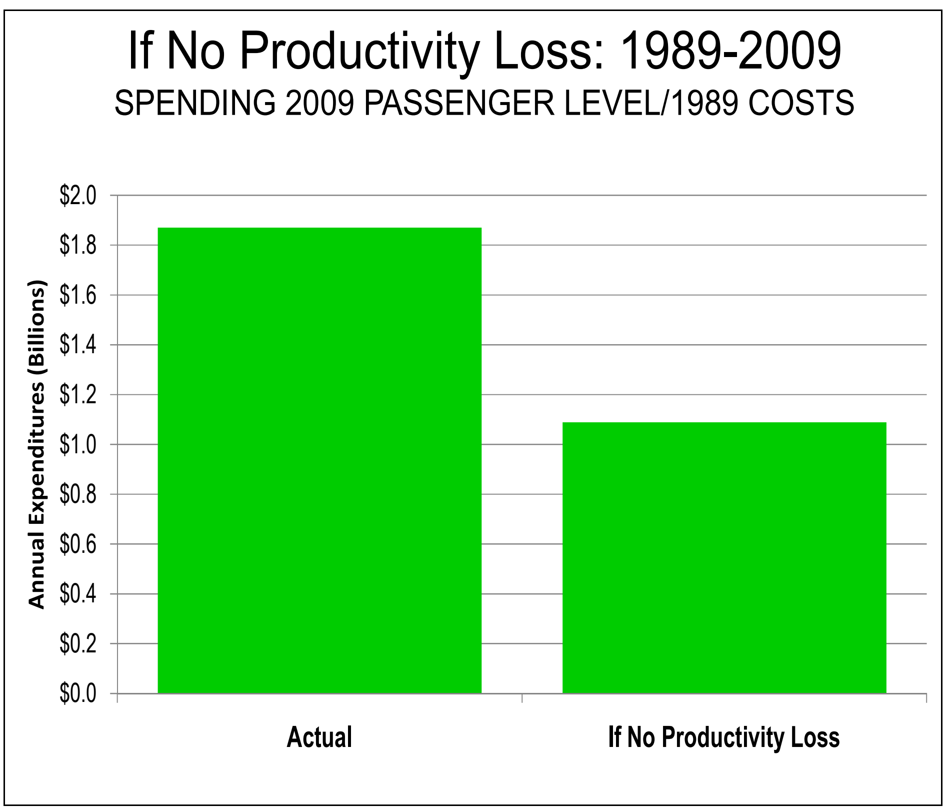

Figure 3 Source: Demographia

Consistent with its mandate from the government of Ontario, Metrolinx has developed a 25-year transportation plan called *The Big Move.* The "Big Move" is a regional (Greater Toronto Hamilton Area) transportation plan approved by the Metrolinx Board of Directors in 2008 and that calls for capital spending of $30 billion in the first 15 years and $50[12] billion in 25 years.

The plan anticipates that major new investments in transportation will reduce round-trip average work trip times from 82 minutes per day to 77 minutes. As the Toronto Board of Trade has reported,[13] the Toronto area has uncompetitive travel times, with average daily commute times greater than that of the most congested US metropolitan areas. By comparison the round-trip in Los Angeles is 52 minutes and the longest round-trip daily commute time in the United States is New York at 69. Toronto commute times are considerably longer commute times than US metropolitan areas with lower density corridors and extensive freeway systems. For example, the daily round-trip commute in Dallas – Fort Worth is 52 minutes. Metrolinx indicates that current trends would lead to a daily round-trip commute of 109 minutes in 25 years.

At the same time, Metrolinx projects that the expanded transit system under *The Big Move* would increase its share of morning commuting from approximately 16% to 26%, while overall transit ridership would increase 125%. The program is also projected to reduce traffic congestion and green house gas emissions. Greenhouse gas emissions per capita would draw approximately one-third, compared to a less than 10% decline without *The Big Move.*

Approximately $1.5 billion (in today's dollars) more would be spent on transit annually in the Greater Toronto and Hamilton area under *The Big Move.*

Metrolinx spending plans and ridership goals indicate that it will be necessary to *improve* productivity over the next 25 years. This is both an important and laudatory objective. However, it is also unprecedented, though not impossible. Achieving the aggressive goals of *The Big Move* will require unprecedented attention to improving productivity.

However, if productivity continues to decline over the period at the national transit rate (1.2%), the impact of the additional spending would be largely negated by rising costs.

[12] The estimated costs relate only to the upgrade and expansion of the regional transportation network and do not include deferred maintenance ("state of good repair"), any required investment to upgrade the accessibility of facilities, investment in local transit or local roads, or the extension of the regional transportation network outside of the GTHA. The transit capital costs are net of existing funding (e.g. Spadina Subway extension, AcceleRide, Mississauga Transitway). *(Source: www.metrolinx.com/thebigmove/en/investment)*

[13] http://www.bot.com/Content/NavigationMenu/Policy/Scorecard/Scorecard_2011_Final.pdf

The result would be a continued intensification of traffic congestion, more air pollution, higher greenhouse gas emissions, longer commute times and additional costs being imposed on the regional economy. In view of the importance of the GHTA area to the nation, the failure to achieve these goals would retard national economic growth as well.

The crucial element that has been in operation in other transportation sectors, but not in transit has been competition. A competitive environment is important to improving productivity. As the record has shown, it is difficult for transit, with its monopoly service provision, to maintain or improve productivity.

On the other hand, transit agencies can use competitive tendering to obtain their services on the competitive market, while retaining full control of timetables, routes, fares and other issues of importance to their customers and the public policy. Through competitive tendering, the competitive bus industry represents an important resource that could assist in achieving the goals of *The Big Move*.

Considering the trend in growth of operating costs with decreases in productivity under the current delivery model it is not possible for government to afford the operating costs of this future transit without a new delivery model. And this is just the GTHA. Every other community in Ontario will have demands in spending for transit.

5. Opportunities for Ontario: The Competitive Bus Industry

The experience is clear that the current service delivery model is incapable of producing the results sought by *The Big Move* within the substantial financial resources that are intended. It is likely that the only hope for achieving these objectives will be a new service delivery model that takes advantage of competition. The Ontario competitive bus industry represents a significant opportunity for the province, Metrolinx and municipalities to produce service levels commensurate with the increased funding levels, through competitive tendering. (See section 11. Competitive Tendering: An Alternative Delivery Model.)

> "There is significant opportunity for new investment and expansion into new ways of doing business"
>
> … 2011 Provincial Budget Document

Figure 4 shows the current market share for TTC and GO Transit, compared to what was planed for in 25 years with *The Big Move*, compared to what it will be with the current trend in productivity drop both nationally and In the GTHA.

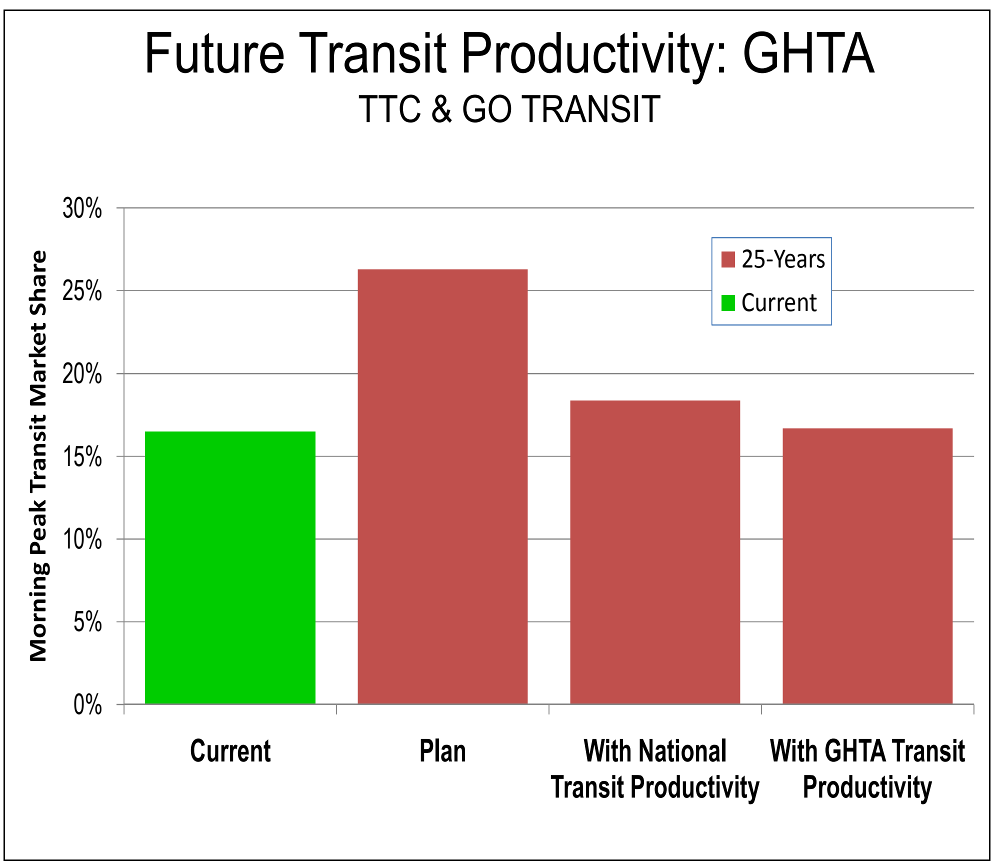

Figure 4 (Source: Demographia)

6. Ontario Northland Transportation Commission (ONTC)

There are also opportunities for the province to improve its financial situation by reforms at the Ontario Northland Transportation Commission. The Ontario government subsidizes a small portion of the Ontario intercity bus travel. That is the portion operated by the Ontario Northland Transportation Commission (ONTC) motor coach services, mainly within Northern Ontario and to/from Toronto. These motor coach services include scheduled bus services and charter services. Bus companies in Northern Ontario have provided viable affordable charter bus services to northern residents for years. The pricing policy of ONTC on its charter services is putting at risk the viability of these unsubsidized bus companies.

> "We are faced with unfair competition, we see our clients taking advantage of (ONTC) rate reductions which range between 26 and 33 %. ONTC is providing long term commitments without increases for up to 5 years with no consideration for world crude price volatility. Clients are also promised the newest coaches for these charters. One would think that this new equipment was acquired to meet the essential needs of the scheduled services."
>
> *... Letter to ONTC Chair from private carrier regarding unfair competition from ONTC in the charter (non-essential) bus market*

In year ending March 2011 ONTC showed a bottom line loss of $10.9 million (but in the detail it should be noted that "government reimbursement" flowed an additional $46 million into ONTC).

Of this loss "Motor Coach Services" had an operating loss of $1.5 million excluding bus operations portion of the administration costs which were $10.5 million. If one assumes bus operations were responsible for 10% [14] of the bottom line loss, then the loss for motor coach operations is 10% or $1.1 million, plus $1.5 million operating loss for a total of $2.6 million.

[14] This is based on per cent of revenue for motor coach services versus total sales revenue, $11 million versus $113 million.

7. Monopoly versus Competition

An economic principle is that monopolies are less efficient and less innovative than a competitive market. A monopoly can be created by government edict as in municipal transit. A monopoly can also be created by the use of government subsidy or cross subsidy that is used to reduce fares and eliminate competition either deliberately (predatory pricing) or by accident (lack of awareness).

> "Competition determines whether services could be delivered more efficiently and effectively by another entity, be in another level of government, a not-for-profit, a social enterprise or a private-sector organization."
>
> *… 2011 Provincial Budget Document*

The issue is not about private sector operations versus government operations. Government has a role and the private sector has a role to play in expanding and enhancing passenger transportation services while addressing Ontario's debt and deficit reduction.

Government should focus on ***growing services to the public*** **not** ***growing government services***. Growing and enhancing bus transportation services to the public does not require a monopoly or government operation of the service.[15]

[15] There are areas that government is the best entity to operate a service, such as policing, fire fighting, armed forces

8. COMPETITIVE BUS EXPERIENCE

Competitive tendering has been used around the world to improve cost-effectiveness and improve productivity, while providing quality service to customers. Two of the more notable examples are in London, England, and Denver.

London, England: London has the world's largest public bus system, with more than 6000 vehicles operating throughout greater London. Between 1970 and 1983, productivity declined as costs per kilometer increased at a rate of 3.9 percent annually. To reverse the trend and to better serve London transit passengers, the government introduced a program of competitive tendering in the mid-1980s. By 2000, all of the service was competitively tendered through a large number of contracts for routes and areas. From 1984 to 2007, productivity improved 1.9 percent annually (measured in passengers carrying per unit of expenditure). Over the period, the gross savings were£10.7 billion ($17.1 billion) relative to inflation. (Figure 6).[16]

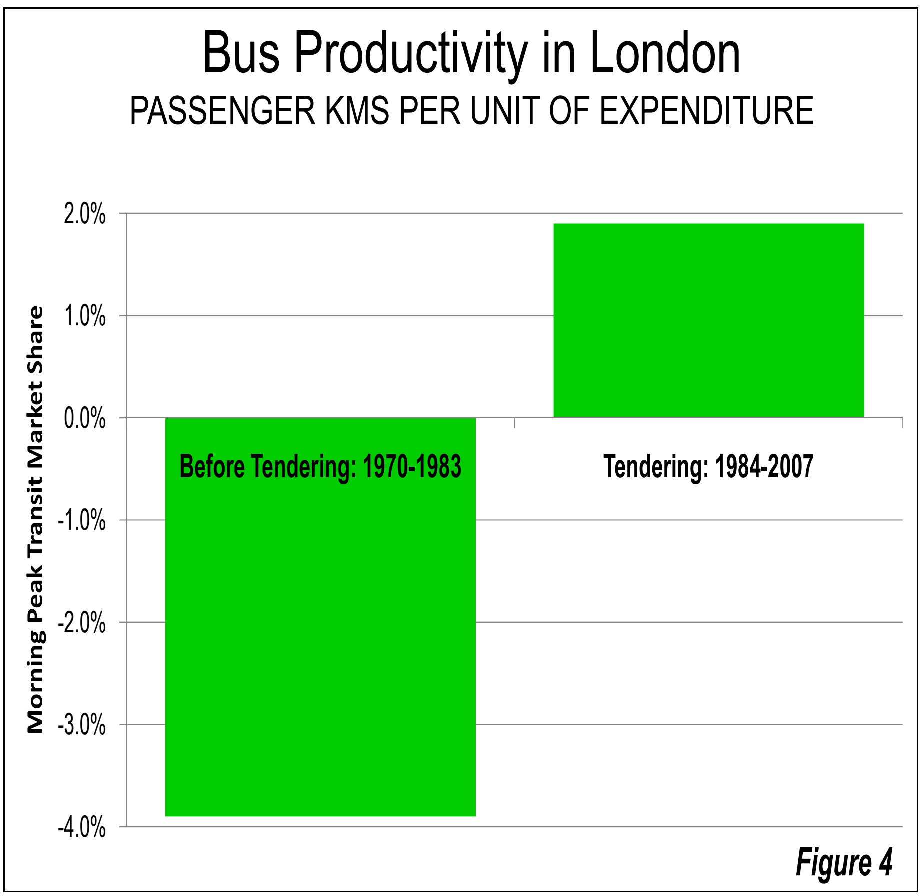

Figure 5 (Source: Demographia)

[16] Calculated on a cost per kilometre basis

Denver: In 1988, the legislation was enacted in Colorado to require 20% of Denver's bus service to be competitively tendered. Over the years, the mandate has increased and now nearly 50% of the bus service is competitively tendered. Between 1988 and 2009, productivity improved 0.4% annually (measured in passenger kilometres per unit of expenditure). Over the period, the gross savings of $1.2 billion were achieved relative to inflation. Nearly $800 million of these savings were the direct result of the lower cost of tendered services compared to services directly provided by the transit agency. However, competitive tendering exerted an influence on the cost of directly operated services, which were provided $400 million less expensively than would have been the case if unit costs had risen with inflation. Over this period, Denver opened an extensive light rail system and parts of the bus system were reoriented to support light rail. This made improving productivity even more challenging. Light rail services replaced the most productive services and many of the transit routes were converted to feed light rail and thus had fewer riders than if they had operated as the principle transit system. If Denver had not built its light rail system, it is likely that the productivity improvement would have been even greater.

Over the same period, productivity declined 0.9% annually in the US transit bus industry (measured in passenger kilometres per hour). At the national level, a far smaller share of national transit bus service is competitively tendered then in Denver (Figure 6).

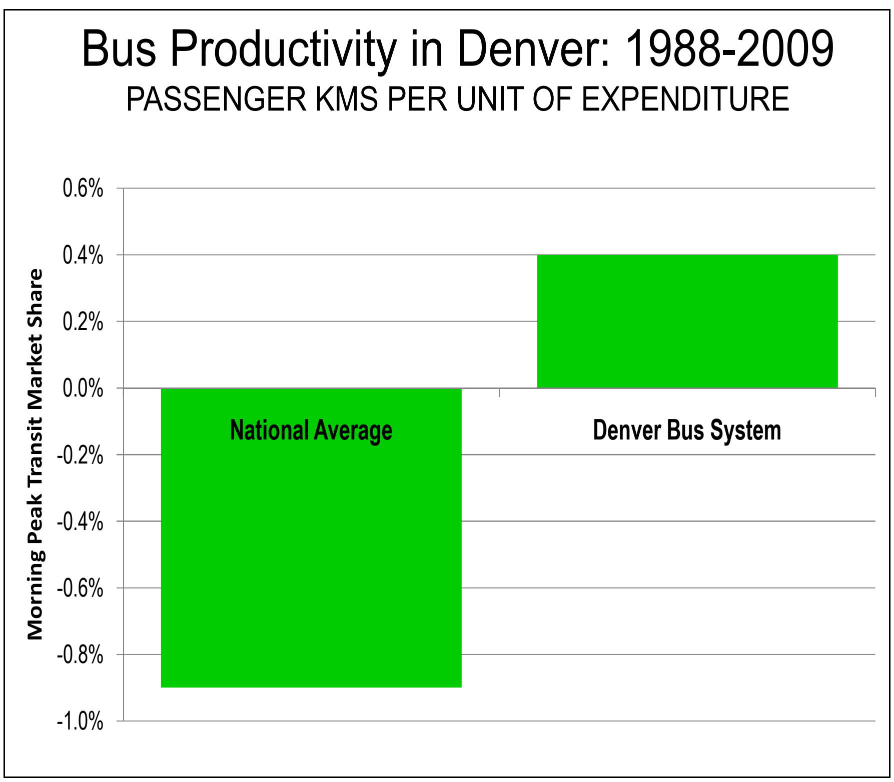

Figure 6 (Source: Demographia)

Montreal: In the Montreal area, 12 municipal entities have been created since 1984 for the organization of passenger services around the 3 cities of Montreal, Laval and Longueuil. They are all public entities. They receive subsidies from the Quebec government, they establish the service level that they want (schedules, fares, network, bus model, capacity, interline exchanges, etc.) and they subcontract for the production of the services. Private carriers are the providers of the buses, maintenance and drivers.

Other Locations: Competitive tendering is now being used for bus services in European nations. All of the bus services in Stockholm, most of Sweden and Copenhagen are competitively tendered. Adelaide and Perth in Australia have converted their entire bus systems to competitive tendering. Competitive tendering is even being used in rail services in locations as disparate as Stockholm, Melbourne, Miami, on number of German metropolitan areas and Toronto, where the GO Transit rail services are competitively tendered.

9. Competition Brings Savings

Work rules, equipment utilization, customer service, the right equipment, lower overheads, lower maintenance costs, a discipline to the bottom line, and management goals are different in a competitive marketplace. For example, at the TTC the cost to operate a vehicle is $123.94 yet the operator wage is just $27.38[17]. The savings are to be found in the non-operator wage costs. TTC pays operators for 144% of the hours that they actually drive. Overtime, absenteeism and work rules that management agreed to allow some drivers and ticket collectors to be making in excess of $120,000[18] per year. These are management issues as much as employee issues and changes here can lead to major savings.

Most major communities prohibit competition when it comes to transit. See **Addendum D: Case Study #2**.

> "Gridlock is terrible, but public transit is worse. Much worse. It takes, on average, 29 minutes to commute to work by car in the GTA, but 40 minutes by public transit"

[17] Ontario Urban Transit Fact Book 2009
[18] Ministry of Finance list of employees earning over $100,000 per year

10. The Roles of Government and Industry

No system is perfect: private or public or a combination of public and private, monopoly or free market. But today's system is failing the passengers, the taxpayers and the industry. It is not sustainable and is not affordable.

The best system uses the strengths of both the public and private components. Government's strength is in planning, regulating and oversight. The strength of the private sector is in operating a service efficiently, being competitive and innovative.

Over the years the roles of government and the industry have evolved (see Addendum D: Historical Background). The competitive industry can be part of the solution to the transportation and environment goals of the province.

The Role of Government:
The National Transportation Act sets out a policy regarding transportation in Canada[19]. The National Transportation Policy states in part:

> ***5.*** *It is declared that a competitive, economic and efficient national transportation system that meets the highest practicable safety and security standards and contributes to a sustainable environment and makes the best use of all modes of transportation at the lowest total cost is essential to serve the needs of its users, advance the well-being of Canadians and enable competitiveness and economic growth in both urban and rural areas throughout Canada. Those objectives are most likely to be achieved when*
>
> *(*a*) competition and market forces, both within and among the various modes of transportation, are the prime agents in providing viable and effective transportation services;*
>
> *(*b*) regulation and strategic public intervention are used to achieve economic, safety, security, environmental or social outcomes that cannot be achieved satisfactorily by competition and market forces and do not unduly favour, or reduce the inherent advantages of, any particular mode of transportation;*
>
> *(*c*) rates and conditions do not constitute an undue obstacle to the movement of traffic within Canada or to the export of goods from Canada;*
>
> *(*d*) the transportation system is accessible without undue obstacle to the mobility of persons, including persons with disabilities; and*
>
> *(*e*) governments and the private sector work together for an integrated transportation system.*

[19] http://laws-lois.justice.gc.ca/eng/acts/C-10.4/page-1.html#h-4

One of the provincial government's roles is to set passenger transportation safety standards and enforce them. With that, government should let market forces determine which operator provides which service. Government is also in the best position to plan future transportation services that are deemed to be in the pubic interest.

> "Through competition, the government expects to realize better customer service outcomes."
>
> *… 2011 Provincial Budget Document*

If government determines that a specific passenger transportation service is in the public's interest and is not being provided due to it not being sustainable, then government should set the standard of service (frequency, rates, schedules, quality) and tender the operation of the service within a fair and transparent system to a competitive industry. The government's role is then limited to oversight and ensuring the terms of the contract are fulfilled. It is not government's role to operate the system: government does not need to drive the bus. Metrolinx follows this role with respect to its train services: it determines the standard of service and tenders the operation of the trains[20].

This role for government is supported by the ***Ontario's Broader Public Services Act.*** The provincial government has recognized the merits of competitively tendering services and eliminating monopolies. The Ontario Minister of Education wrote:

> *"Our government believes that Ontarians expect the significant public funding spent on student transportation be used in a way that is both transparent and accountable. The Provincial Auditor has recommended that school boards adopt competitive procurement processes to increase accountability, fairness, and ultimately value for money. In the 2009 budget, the government announced supply chain guidelines which mandate that procurements made by the broader public service be undertaken in an open and transparent fashion."*

While this statement is in reference to school bus transportation[21] which is funded by the Ontario Government through local school boards, there is a direct comparison with

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[20] Even some communities/regions that do tender to a competitive market are now setting bidding criteria that minimizes potential savings (e.g. dictating how many mechanics and supervisors the contractor must have). This takes away the ability for efficiencies. In this regard, successful tendering has the community dictating the level and quality of service and the contractor maintaining this level and quality of service with appropriate staff levels as opposed to having excess staff without work to do. We suspect that when the level of staffing is dictated by a community, the prescribed level of staffing is based on other government operated transit systems that are, for this very reason, inefficient.

[21] It should be noted that the implementation of this directive by certain school boards was seriously flawed and consequently did not enjoy the success expected.

the Ontario Government funding transit through local governments. The same rules should apply.

We accept that government subsidy of transit is required. But if government subsidizes one entity and not its competitor the outcome is the same as predatory pricing: eliminate, discipline, or deter entry by a competitor, with the effect that competition would be substantially lessened or prevented. We are not suggesting that any transit entity uses predatory pricing but the result can be the same.

> "We favour contracting out where it can be shown that a private sector operator will provide equal, or better, service at significantly reduced cost."
>
> *...Toronto Star Editorial May 17 2011*

<u>The Role of the Bus Industry:</u>

The private bus industry prefers to operate passenger services as a business under the discipline of the marketplace and without subsidy. Companies operate services in a market driven environment where better service results in more business (competition improves service and prevents over charging). A competitive private sector delivery ensures the most cost-efficient services as compared to monopolistic government operated services.

As the government expands service, the risk of government operations 'cherry picking' the major services provided by the private sector stymies further investment by the bus companies. When the provincial government subsidizes ONTC, creating artificially low fares, it jeopardizes the viability of local bus companies, their employees and the taxes those companies pay.

A competitive bus industry can deliver an equal or better service at a lower cost. When the government (municipality or province) decides that a service is required and not provide by the bus industry, it can control the service and **competitively tender** the operation of the service.

> Government should focus on ***growing services to the public*** **<u>not</u> growing** ***government services***.

11. Competitive Tendering: An Alternative Delivery Model

The municipality or province establishes the service - the routes, fares, discount programs, schedules, stops, type of vehicle, even the colour of the driver's uniform - and competitively tenders the operation of the service to meet this criteria. The municipality or province builds in incentives for good/growing service and penalties for below standard service. (A monopolistic operated transit entity does not build in penalties for poor service and eliminates all incentive for better service, whether for management or drivers.)

> *"…explore alternative service delivery models, including leveraging private-sector investments through a competition."*
>
> *… 2011 Provincial Budget Document referring to Commission's task*

The bidders are required to operate the service to meet defined quality standards for the cost quoted. They hire the drivers, train them, dispatch and manage them. They hire and manage supervisors and mechanics and all personnel required to manage and operate the service according to the contract. They maintain and fuel the buses. They can even buy the rolling stock if required.

The municipality sets the criteria for bidders to be qualified and when bidders prove that their qualifications meet the criteria, then the lowest bidder of those is accepted.

There are a number of misconceptions about competitive tendering. **Addendum B** addresses the many 'myths and facts' of competitive tendering.

> "The government remains open to new models of management where these models can be demonstrated to be in the long-term interest of Ontarians."
>
> *… 2011 Provincial Budget Document*

Tendering has been tried before with GO Transit bus service. **See Addendum C: Case Study #1**.

The issue is not private sector operations versus government operations: it is a matter of competition versus monopoly. Both Government and the private sector have a role to play in expanding and enhancing passenger transportation services while addressing Ontario's debt and deficit reduction.

12. Conclusions

1. The Ontario government can save over $500 million over the next 9 years through competitive tendering of GO Transit bus services and over $100 million per year through competitive tendering of the operation of buses, both inter-city (ONTC) and municipal transit.

2. Transit in major centers has to be expanded and enhanced to reduce the use of private automobiles because of the cost of road congestion and environmental damage caused by private automobiles.

3. Expansion of transit services will only be sustainable if an alternate delivery mechanism is implemented. The proposed $50 billion "Big Move" for transit in the GTA is not sustainable with the existing delivery model.

4. There are services that government is best to operate. For example, policing, fire fighting and armed forces, but operating a bus is not one.

5. The private sector, in a competitive environment under government oversight, can deliver a better bus service more cost efficiently.

6. Under the current delivery model, providing more money to transit has not increased or enhanced services correspondingly. The current service delivery model for government operated transit services has resulted in a 1.2% drop in productivity every year for 20 years.

7. The private sector bus industry is ready, willing and able to operate transit services, regional commuter services and inter-city services to reduce government operating subsidies. It is also prepared to invest in rolling stock and infrastructure to reduce government capital spending.

13. Recommendations

1. Regional Transit: That the Province order Metrolinx to competitively tender, through an independent third party (for example, the Ministry of Finance), the operation of all GO Transit bus services.

2. Ontario Northland Transportation Commission:
    a. That the Province order ONTC to cease all charter bus service as this is discretionary service already being provided by the bus industry in a competitive market.

    b. That the Province order ONTC to competitively tender their inter-city scheduled bus services to ensure that provincial taxpayers obtain the best value for their tax dollars.

3. Municipal Transit:
    a. That the Province ensure that Ontario taxpayers and passengers obtain the best value for the provincial subsidy given to municipal transit, by specifying, as a criteria for obtaining subsidy, that the delivery of the transit service be provided by a competitive market, that is, competitive tendering.

    b. Under special circumstances, if, for whatever reason, the transit authority is not willing to provide a service where there is a demand, there needs to be another mechanism under the control of a third party (for example, the Ministry of Finance) to ensure that the demand is met cost efficiently.

The Ontario Motor Coach Association (OMCA)

The OMCA was founded in 1929 and represents over 700 member companies. Member companies operate scheduled, charter, commuter, transit, tour, shuttle and contract bus service. Member tour companies organize and operate motor coach tours across North America. OMCA provides services to our members such as training, publications, tradeshows, tour operator marketplaces, driver license status checks, etc. OMCA works with governments at all levels to maintain the bus mode as the safest form of public transportation. OMCA also promotes the numerous advantages of the industry's involvement in travel to the government and the public.

The Authors

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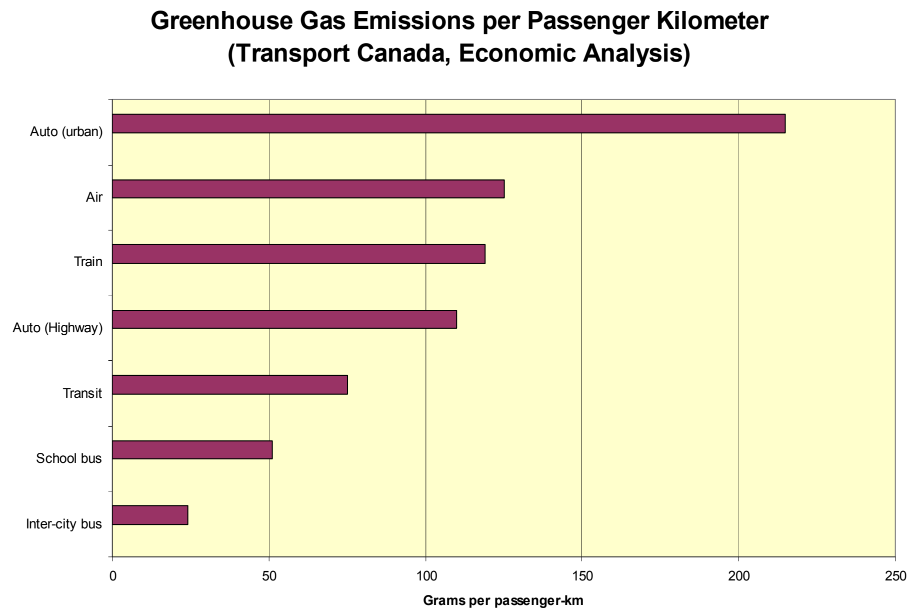
- *National Transportation Safety Board (USA)*
- *Royal Commission on National Passenger Transportation*
- *Canadian Human Rights Tribunal*
- *Federal Standing Committee on Transportation*
- *Canada Transport Act Review Committee*
- *National Transportation Agency*
- *Canadian Transportation Commission*
- *Ontario Highway Transportation Board*
- *Numerous municipal, provincial and federal committees*

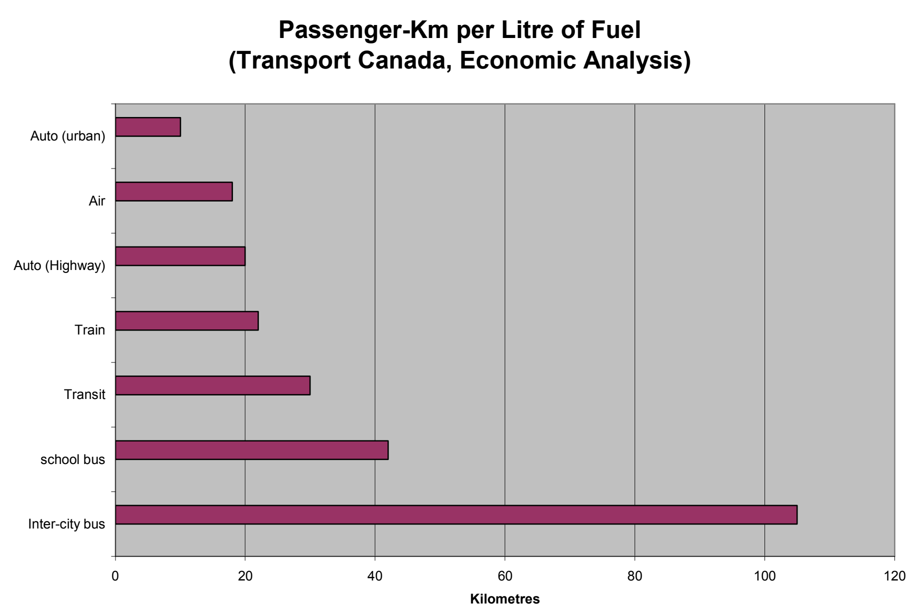
He was a founding director of the Travel Industry Council of Ontario, See America: Canada Committee and Group Connect LLP. He is a Past Director of the Mexican Government Tourism Marketing Advisory Board, Ontario Better Roads Coalition and Motor Carrier Passenger Council of Canada.

Wendell Cox *is principal of Demographia, a St. Louis (USA) based international consulting firm. He was a three term member of the Los Angeles County Transportation Commission, which oversaw transit and highways in the largest US county (now 10 million population), chaired two American Public Transit Association national standing committees and was a member of the Amtrak Reform Council, which was created to recommend financial and operational reforms to the US Congress. He has completed transportation projects in Canada, the United States, Australia, New Zealand, Europe and Asia. Wendell Cox is a visiting professor at the Conservatoire National des Arts et Metiers in Paris, a national university and has lectured at universities such as Tonji University (Shanghai), Cairo University, the University of Paris, Politecnico di Milano, the University of Sydney and the University of Toronto. He holds a BA in Government from California State University, Los Angeles and an MBA from Pepperdine University, Los Angeles.*

ADDENDUM A

Transport Canada reports buses have the lowest greenhouse gas emissions of all modes and the best mode for fuel consumption on a passenger-kilometre per litre of fuel basis.





ADDENDUM B

Myths and Facts Of Competitive Contracting

Those with a vested interest in maintaining the status quo, and with disregard for what the taxpayer can afford, will often put forward the following arguments (myths) against competitive tendering. In doing so, they show either a lack of understanding of how competitive tendering works, or, are misleading the public. They will argue that competitive tendering results in the following:

Myth #1: Companies will drop low use unprofitable service.

> **Fact**: The municipality or province prescribes in the contract the routes and schedule and maintains control over such. If the municipality or province wants to operate a service with low usage that is entirely up to them as the company will operate the service according to the contract.

Myth # 2: Companies will increase fares when they obtain the contract.

> **Fact**: The municipality or the province sets and controls all fares and receives all fares paid. The company is contracted to operate the service as spelled out in the contract regardless of what fare is charged and received by the municipality or province, as the case may be.

Myth # 3: Competitive tendering is a union busting tactic.

> **Fact**: Ontario labour laws protect all workers. Some workers choose to belong to a union and some choose not to. The bus industry pays wages according to market rates and similar industries. Most companies operating transit services or scheduled services are unionized. In fact, the major schedule/commuter carriers in the GTA are represented by the same union as GO Transit and TTC.

Myth # 4: Companies cannot operate transit for the same cost as government because companies add on a profit and government entities do not.

> **Fact**: Companies must make a profit to survive and they also pay taxes that help subsidize public services, including transit. However, even considering this, companies can still operate a service for less cost than a monopoly can as management in companies have a discipline to the bottom line not found in monopolies. Competition breeds efficiency.

Myth # 5: Companies sacrifice safety

> **Fact #1**: in the GTA eight out of ten bus companies have a better out of service rating under Ministry of Transportation criteria than does the government operated regional carrier[22]. **Fact #2**: The government operated regional transit

[22] From Ministry of Transportation Commercial Vehicle Operator Summary Public Abstract.

system does not abide by the same safety inspection standards prescribed by the Ministry of Transportation and the Federal government[23].

Myth # 6: Companies are not large enough to operate large transit systems.

Fact: First, large does not necessarily mean that an entity is more efficient. Second, three of the largest bus companies in the world operate in Ontario. Third, one of the largest transportation operators in North America, operating heavy rail, light rail, transit buses, commuter coaches, a mono rail and ferries is a private company that many government entities seek advice from. Fourth, virtually all of the 18,000 school buses in Ontario are owned and operated by the private sector (both large and small companies) under contract with government entities (school boards).

Myth # 7: Government transit is more cost effective than a competitive private market.

Fact: MTO has previously requested GO Transit to competitively tender a proposed service. After reporting to the GO Transit Board of Directors and the media that GO Transit could operate a proposed tendered service for less than the competitive private sector, GO management were forced to show[24] that the bidding process was set up to fail and that they did not include all of their costs in the comparison. See Case Study # 1 in Addendum C.

Myth # 8: Quality of service will drop.

Fact: In competitive tendering, the municipality or the province specifies the level and quality of service and builds in incentives and penalties to ensure that the standard is met – something government operated monopolies do not, or cannot do. On-time performance can be monitored and the company can be penalized for below standard performance and given a bonus for exceptional on-time performance. This is not done in government operated services.

Consider the following: On August 10, 2011, the Premier announced that GO Transit would refund fares of passengers if the train/bus was late. What this means is that if GO Transit management or employees cause a vehicle to be late the <u>taxpayer</u> pays a penalty (government subsidizes all GO costs that aren't covered by the passenger) and management/employees face no penalty or consequence. That is, if government operated GO Transit provides a bad service the taxpayer pays more!

Myth # 9: Government can borrow money at less cost than companies

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[23] Provincial Regulation prescribes daily trip inspection requirements and periodic (every 30 days or at 12,000 kilometres). Periodic inspection must be completed using either "Schedule 2" only, or may be inspected using "Schedules 3" and "Schedule 4" in combination with each other. GO Transit does not follow this regulation.

[24] Taken from GO Transit minutes of a debriefing meeting held with a representative of the companies that submitted a bid.

Fact: Government may be able to borrow money at a lower interest rate but if the amount required by government is higher than the amount required by the more efficient private company, the net cost may be greater than the private sector cost. Furthermore, government borrowing is one of the major reasons causing the economic crisis that Ontario is in and why this Commission was required. The suggestion that the solution to the government debt problem is for the government to borrow more money mocks the taxpayer's intelligence.

Myth # 10: GO Transit and TTC often state that they have the highest cost recovery ratio in North America which infers that they have low cost operations.

Fact: Michael Warren*,* former Chief General Manager of the TTC, writes that the TTC has to "lower the cost of delivering the current level of transit service, which is among the highest in North America." [25]

[25] Toronto Star, opinion/editorial page, 2010.

ADDENDUM C: CASE STUDIES

Case Study #1: Industry (GO Transit)

A previous Minister of Transportation ordered GO Transit to competitively tender a proposed new bus service. GO Transit staff developed a bid request and five bus companies responded with tenders. GO Transit staff analyzed the tenders and reported to the GO Transit Board of Directors and the Minister that GO itself could operate the new proposed service at a much lower cost than the bus companies that tendered could.

The five bus companies that had submitted tenders did not believe this statement and requested a debriefing meeting with GO Transit on the process. Minutes of this debriefing were kept and issued by GO Transit (copy available).

At that meeting, and confirmed in the minutes of the meeting, we learned that:

- GO Transit staff built in a 30% operating advantage for itself in establishing the routes of this new service. That is, the bidders were, by design, immediately put at a 30% disadvantage in the cost comparison.
- Overhead, supervision, dispatch, administration, training, hiring, insurance and licensing costs were not included in GO`s costs but were included in the bidders costs.

In fact, it was a sham tender set up to fail and to mislead – that in itself is an admission that even GO Transit management knew that they were less efficient than the private sector. Otherwise GO Transit would have tendered in a fair and ethical manner.

This action highlights that any competitive tender process must be set up, controlled and monitored by an independent third party.

Currently, GO Transit competes with bus companies on certain routes and is having an impact on the viability of those bus companies. Companies cannot compete with GO Transit as it receives 100% capital subsidy, up to 20% operating subsidy, exemption (questionable) from charging HST, exemption from the Public Vehicle Act, and exemption (questionable) from safety inspection standards[26].

Case Study #2: Industry (Toronto Transit Commission)

Residents in a group of condominiums in Toronto did not have good public transit service to the downtown area. TTC would not provide the service. The condo owners contracted a private bus company to operate a service for its residents. This service was

[26] Provincial Regulation prescribes daily trip inspection requirements and periodic (every 30 days or at 12,000 kilometres). Periodic inspection must be completed using either "Schedule 2" only, or may be inspected using "Schedules 3" and "Schedule 4" in combination with each other. GO Transit does not follow this regulation.

to receive no government subsidy. Just prior to the service being implemented the TTC announced that they would take the private operator to court to force this service to cease, citing the monopoly that they (the TTC) have been given by the province.

A passenger service required by the public that the government monopoly would not provide and that taxpayers would not have to subsidize, is not being provided.

Case Study # 3: Non Industry (Canadian Armed Forces)

While transit has a spending and productivity problem, bureaucracies generally want to maintain the status quo and can not be counted on to implement productivity and spending changes on their own.

On August 19, 2009 the *Globe and Mail* reported on General Andrew Leslie's report to the federal government on cost cutting and better productivity in the armed forces. He recommended "… redeploying or eliminating 3,500 regular forces personnel who currently hold jobs that serve little purpose (and) doing the same to 3,500 civil servants in the department." He pointed out that nothing may become of his report if it is left to the bureaucracy citing past reports that had suggested changes to the bureaucracy to reduce cost and improve efficiency. His report notes that previous efforts to tame the defense bureaucracy have been defeated by that very bureaucracy. As a result "the headquarters and other overhead grew while ships were decommissioned … battalions were disbanded and whole aircraft fleets cashed in." Referring to the bureaucracy the article quoted the General "The tendency was to argue for the preservation of the status quo."

The *Globe and Mail* reported that over a six year period the government increased military spending by 50% but the number of regular forces personnel grew only 11% while the civilian work force for the military grew by 33%.

This government operated service example resembles transit:

1. more spending by government, increased overhead not service, and
2. the existing bureaucracy works to keep the status quo resisting significant expense cuts and productivity improvements.

ADDENDUM D: Historical Background

In 1929 the Province of Ontario passed the *Public Vehicle Act* regulating the bus industry. The basic principle of the Act was to restrict the number of carriers in major markets provided those carriers operated services in smaller markets, which otherwise were not sustainable. A carrier that obtained a scheduled service authority also obtained charter service authority for the points in its license.

While this Act is still in place, there has been a significant erosion in this principle. Over the years many companies obtained charter service authority with no obligation to provide schedule service. Every bus route has competition from the private automobile and in the Quebec City-Windsor corridor, federally subsidized VIA Rail competes with the industry. In this sense the industry has operated in a competitive market `managed` by the government.

Up to 1980 these bus services flourished and expanded especially after the second world war with the growth of Ontario's road network. In the mid 1980's the industry saw a decline in scheduled bus services.

As cities grew the bus companies implemented municipal transit services. As the demand and services grew the municipality took over many of these transit services. The Ontario Government decided that it was also in the public interest at the time to allow municipalities to provide their transit services as a monopoly and created a provision for this in the *Municipal Act*. With this, bus companies were prevented from operating intra-municipal schedule bus services.

The Province rightly concluded that a shift in use from private automobiles to mass transit will assist the provincial government in achieving goals of reduced road congestion and environmental damage caused by the automobile.

The Province also decided that it was good public policy to subsidize this municipal transit service.

In the 1970's the Province further decided that it was in the public interest to create and subsidize a provincial agency (GO Transit) to operate inter regional commuter service in the Greater Toronto Area (GTA) later expanded to the Greater Toronto Hamilton Area (GTHA).

> "In the past, transit officials would increase taxes, raise fares or reduce service whenever they were short of money. Now, a fourth dynamic element – contracting with private operators – has been added. This proves you can't isolate yourself from the marketplace forever."
>
> *...Jim Seal, Transit Consultant, California, April 2011 Bus and Motorcoach News*

Until the formation of GO Transit, inter-city services such as Toronto and Hamilton were provided without subsidy by the bus companies. As GO expanded, the bus companies were displaced by the subsidized services of GO. Bus company services to areas such as Barrie and Kitchener have been reduced with the GO expansion to those areas and are in jeopardy if GO services expand.

With the growth of these transit services the subsidies increased. As shown in the tables and graphs in the body of this report, service did not increase in a corresponding way to the subsidy increases. The government operated monopolies lost productivity (as confirmed by the Conference Board of Canada).

Yet the demand for more subsidy continues to increase. To support this demand, the major transit entities regularly report that they have high revenue cost ratios in the range of 70-80%, suggesting that the passenger pays the greater share. If all costs, including capital, were considered, this ratio would be greatly reduced.

The result of this reduced industry involvement in transit on the Provincial and Municipal governments has been: increasingly higher capital and operating subsidies to government monopolies; lower transit productivity; and limited increase in service for these additional subsidies.

However, in the aftermath of the economic crisis of 2008, the political environment has changed to an environment of reducing government deficits and debt: governments at all levels have decided that they must reduce spending and control their debt.

This change has been driven by the taxpayers, most notably with the election of Rob Ford as Mayor of Toronto and the election of a Conservative majority in the federal government.

> "People (transit officials) are challenged with their budgets and have to look at every efficiency they can, and they are compelled to look at these kinds of things (contracts with private companies)"
>
> *...Art Guzzetti, Vice President*
> *American Public Transportation Association.,*
> *April 2011 Bus and Motorcoach News*

The Provincial Government has not missed these 'winds of change'.

The strongest signal to this effect has been the Ontario Finance Minister's 2011 statement to create a **Commission on the Reform of Ontario's Public Services** that is to make recommendations on how to change the public service activities and reduce costs. Untouchable in this 'reform' is education and health, the two highest expenditures in the province and increasing every year. The third highest provincial expenditure is debt payments (and with interest rates expected to go up and with ongoing annual deficits this expenditure is going to increase as well). Collectively these three expenditures currently make up 65% of the provincial budget.

ADDENDUM E: Cost Comparison Model

A model was developed to compare competitive bus industry and GO costs, based upon a confidential OMCA survey and other information available (public and privileged).

GO publishes virtually no cost data by mode and so it was necessary to assume unit costs similar to that of other large regional public transit operators (such as the Toronto Transit Commission, OC Transpo in Ottawa and STM in Montreal). We estimated public costs through examination of available detailed unit costs and applied a cost allocation model based upon a distribution of cost functions related principally to hours of service and distance traveled.

Based upon that analysis, we estimate that competitive tendering could save GO Transit approximately 21% of its operating costs for transportation, maintenance and insurance (cost per vehicle hour). We have conducted a number of sensitivity tests to confirm the estimate and generally find results in the range of 20 to 23% savings. It is estimated that in fiscal year 2013, a complete transition to competitive tendering could save $50 million.

The annualized cost per hour differential was then increased at an annual rate on a trend to reach a 100% increase in service between 2009 and 2020, consistent with *The Big Move.* The resulting more than $500 million in savings are thus expressed in 2011 dollars.

These projections are considered conservative for two reasons. First, much higher cost savings have been achieved elsewhere and in a competitive tendering situation, operators are likely to find ways to reduce their costs more. And, second without competitive tendering, it can be expected that annual public transit cost increases will continue at above inflationary levels. The model conservatively estimates that cost increases will be at the inflation rate, despite the fact that transit costs among large public transit operators in Ontario have risen at well above the inflation rate.