

# Summary of Experiences in the Introduction of Contracting with the Private Sector and Competition in the Production of Public Transportation Services

# Outline

- I MBTA**
- II Restructuring of commuter rail and urban rapid transit services in Buenos Aires, Argentina, to introduce contracting with the private sector in the delivery of service, 1992-2000**
- III Development of "Tren Urbano", a "new start" urban rail transit service in San Juan, Puerto Rico through a hybrid design-build-operate-maintain/design-build competitive procurement, 1993-2000**
- IV Lessons learned overall**

# I MBTA

- A) Introduction of multi-year contracts in the delivery of commuter rail services, 1975-2000**
- B) Introduction of competition in the delivery of train- and station-cleaning services, 1980-2000**
- C) Introduction of competition in the delivery of suburban commuter bus services, 1983-2000**
- D) Introduction of competition in the delivery of paratransit services for the elderly and disabled customers, 1984-2000**
- E) Contracting for commuter boat services from Hingham to Boston**
- F) Contracting for installation and maintenance of new signaling system for the orange line, 1986-1996.**

# I-A MBTA Commuter Rail

## 1) 1975 context

- a) Long-term worsening of service on private monopoly commuter rail services, operating on one-year subsidy contracts
- b) strong policy desire to improve service
- c) strong union environment

## 2) Approach

- a) Purchase of track and vehicles by public authority
- b) Residual right-to-operate cargo service remained with private railroad
- c) Major public investment in track and new vehicles
- d) Contract to operate and maintain rail service back to original private entity with power to re-bid after five years, at option of public authority
- e) cost to operate and maintain basis of contract, fare collection by public authority
- f) Fare policy and schedule set by public authority

# I-A MBTA Commuter Rail (cont'd)

## **3) Results - initial**

- a) Positive: improved service, ridership, stability of cost, multi-year management**
- b) Crisis with Conrail proposed cost increase, resolution by changing contractor to B&M, showed value of competition in avoiding extortionate costs.**

## **4) Results: Longer term**

- a) 1988-89 change in B&M management philosophy, labor disputes, degradation of service.**
- b) Re-bid with poor market response**
- c) Amtrack contract: better than new B&M but less good than original.**
- d) 1999 re-bid vehicle maintenance attempt failed because of labor, political opposition**
- e) Operating contract future uncertain**

# I-A MBTA Commuter Rail (cont'd)

## 5) Lessons learned

- a) **Inherent benefits of long-term contract.**
- b) **Value of competition undermined by lack of competitive private providers.**
- c) **Stable labor relations important.**
- d) **Transitions extremely difficult for customers, labor.**
- e) **political problems in managing contract.**
- f) **Labor relations central to success.**
- g) **Great importance of on-time payment by public sector.**
- h) **Overall:**
  - far better than crisis of 1975**
  - Management challenge**
  - Cost increases, but quality increases more**

# I-B MBTA Vehicle and Station Cleaning

## 1) 1981 context

- a) Long-term severe cost and quality problems.
- b) New legislation as result of crisis allowed contracting.
- c) Gradual contracting out.

## 2) 1982 election, political change

- a) Moratorium on contracting out
- b) Contracting resumed after in-house performance failed to improve

## 3) Initial results

- a) Positive: -- quality and cost  
-- labor acceptance

# I-B MBTA Vehicle and Station Cleaning

## 4) Long-term results

- a) Quality improvement
- b) Degradation of worker pay and benefits
- c) Minimum labor conditions required, 1988
- d) Corruption of contract management, 1993

## 5) Lessons learned

- a) Competition can be excessively cut-throat
- b) Political philosophy, integrity of contract management important
- c) Overall better results than with old system

# I-C MBTA: Introduction of Contracting and Competition in Suburban Bus Services

## 1) 1983 context

- a) Marginal private operators with franchises
- b) Need for subsidy
- c) Availability of limited competitive providers in the market

## 2) Approach

- a) *de facto* sole-source contracting
- b) Contract management key
- c) Service contract including fare collection
- d) Gradual shift to real competition

## 3) Results -- immediate

- a) Positive: -- service stabilized and expanded

# I-C MBTA: Introduction of Contracting and Competition in Suburban Bus Services

## **4) Results -- long-term**

- a) 1992 efforts to contract out publicly operated, high-quality service failed**
- b) Labor opposition**
- c) Customer concerns**
- d) Electoral activities by unions (1994, 1996, 1998)**
- e) Overall outcome worse than if never attempted**

## **5) Lessons learned**

- a) Quality of service key**
- b) Labor relations central**
- c) Availability of private capacity key**
- d) Cost increases, but quality also**

# I-D MBTA: Paratransit Service, 1984-2000

## 1) Context

- a) Private non-profit contractor
- b) Limited service area
- c) Inadequate management structure for expanded service
- d) rowing service quality problems

## 2) Approach

- a) Competitively bid service, open to private providers
- b) Fare, service policy set by public subsidy required. Basis of competition combination of management capacity and minimal subsidy requirements.

# I-D MBTA: Paratransit Service, 1984-2000

## **3) Initial results**

- a) Extremely disrupted service during transition**
- b) Need to further re-bid service**
- c) Eventual reasonable service quality with second private contractor**

## **4) Long-Term Results**

- a) Expanded service area**
- b) Reasonable quality**
- c) Growing cost**
- d) Extreme disinclination to re-bid because transitions painful**

# I-E MBTA: Contractors for Commuter Boat Services, 1983-2000

## 1) 1983 Context

- a) Prior effort with publicly owned vessel problematic, shut down
- b) Disruptive highway reconstruction created urgent political demand to provide service by commuter boat

## 2) Approach

- a) Bid to private operators
- b) Require bidder to provide his own vehicles, meeting performance specification, to avoid problems interface between boat and operator which had undermined previous service.
- c) Public authority sets fares and schedules
- d) Lowest subsidy request for given service wins

# I-E MBTA: Contractors for Commuter Boat Services, 1983-2000

## **3) Early results**

- a) Successful, popular, high-quality service**

## **4) Long-Term Results**

- a) Effort to expand introducing multiple operators**
- b) Operator resistance**
- c) Constant political agitation by losing bidders**
- d) Overall good performance but requires strong management capacity**

## **5) Lessons Learned**

- a) Good approach, but transitions very difficult, strong management required.**

# MBTA: Contracting for Installation and Maintenance of New Signal System for the "Orange" Line, 1987-1996

## 1) Context

- a) Very bad prior experience with new signal systems.
- b) Accountability problems between provider of equipment, installer, and in-house maintenance.

## 2) Approach

- a) Bid provision, installation, and maintenance as one contract for 10 years, to get clear accountability.

## 3) Results

- a) Very successful, although some labor resistance.
- b) Cost higher, but quality much better.

# II-A Rail Restructuring in Buenos Aires

## 1) Context

- a) **Massive commuter rail system including broad, narrow, and normal gauge, electric and diesel commuter rail lines, managed badly by the Federal government, and a modest rapid transit system managed reasonably by the city.**
- b) **Massive fare evasion**
- c) **Excess labor and extensive "no-show" jobs**
- d) **inadequate maintenance, disinvestment**
- e) **No investment occurring**
- f) **Strong labor unions**
- g) **System close to collapse**

# II-A Rail Restructuring in Buenos Aires

## 2) Approach

- a) **Break the system into 7 lines to be bid out as separate packages**
- b) **Recognize requirement to keep track, vehicle maintenance, and operation in one unified contract.**
- c) **Public sector owns facilities, sets fares, schedules, reinvestment required.**
- d) **Contractor keeps fare revenue to provide incentive**
- e) **Ten-year concession duration  
(except subway = 20 years)**
- f) **Recognize need to continue subsidy at least at constant level, on-time payment essential**

# II-A Rail Restructuring in Buenos Aires

## 2) Approach (cont'd)

- g) Two-phase, two-envelope process
- h) basis of award: lowest subsidy request
- i) No one company allowed to win all contracts, to retain competitive environment
- j) Recognize the need to aggressively market the contract opportunity, to develop international field of bidders
- k) Public sector needs to integrate the system physically, organize a unified fare system, plan for the future
- l) World Bank funded "buy-out" of excess labor
- m) Labor union support courted and secured

# II-A Rail Restructuring in Buenos Aires

## 3) Results, very short-term

- a) **Process of marketing the opportunity, preparing bidding documents, issuing request for proposals, evaluations, rejecting unqualified bidders, fighting legal challenges by unhappy bidders, to the point of award of contracts and mobilization took over two years, during which time the old organization became totally demoralized and service and maintenance degraded further. Successful bidders then claimed that condition of assets had deteriorated from the time of initial inspection and bid, so they sought financial relief.**
- b) **Service quality degraded further and ridership fell.**

# II-A Rail Restructuring in Buenos Aires

## 4) Results, one year after transition

- a) **Dramatic success. Quality improved, fare evasion ended, ridership up 30%. Reinvestment led to visible improvement in quality.**
- b) **Government, to the surprise of all, paid its bills on time.**
- c) **Tremendously talented and committed management and control staff.**
- d) **Some adversarial nature to monitoring of contracts.**

# II-A Rail Restructuring in Buenos Aires

## 5) Results, five years after transition

- a) At least one of the four concessionaires performing substantially poorly.
- b) Persistent non-cooperation with government on unified fare system, notwithstanding contractual requirements to cooperate.
- c) Substantial political lobbying by concessionaires to change terms of contract.
- d) Quantity and quality of regulatory control staff eroded
- e) Government begins to not pay monthly subsidy.
- f) Non-competitive "re-negotiation" of concessions to extend duration in exchange for added investment.
- g) Cost minimization strategies driving out quality improvements

# II-A Rail Restructuring in Buenos Aires

## 6) Lessons Learned

- a) Transition problems are substantial
- b) Support or at least acceptance by labor unions very important
- c) Extremely competent, honest public sector management and oversight capacity essential
- d) Requirements for reliable public subsidy essential to attract competitive private sector interest
- e) Substantial improvement achieved, but from a bad, crisis situation.

# II-A Rail Restructuring in Buenos Aires

## **6) Lessons Learned (cont'd)**

- f) Political advocacy of private companies makes management and regulation difficult.**
- g) Illusion and excessive rhetoric about privatization makes it difficult to attract and retain competent public sector management and maintain political support for regulatory functions and public subsidy**
- h) Fare retention by concessionaires deprives public sector of important flow of management information**

# II-A Rail Restructuring in Buenos Aires

## 6) Lessons Learned (cont'd)

- i) Interfaces between private companies extremely difficult to manage and integrate, notwithstanding explicit contract language.
- j) Net investment from private sector not attracted; financing of re-investment really secured by capturing fare evasion, eliminating no-show labor, and shifting maintenance to night, to effectively increase fleet availability.
- k) The private concessions succeeded in rescuing a system that (bad) public management was about to destroy, and which had not been possible to turn around.

# III-B Design-Build-Operate-Maintain Procurement of Tren Urbano in San Juan, Puerto Rico

## 1) Context

- a) Long-standing frustration with total absence of quality public transportation or rail service
- b) Growing automobile congestion, degrading quality and increasing cost of bus services
- c) Highly-talented political leadership committed to creating a rail system
- d) Absence of local technical expertise
- e) Tradition of bad, non-consumer-oriented public management of public enterprises
- f) Availability of public funding to finance and subsidize operation of a Metro.

# III-B Design-Build-Operate-Maintain Procurement of Tren Urbano in San Juan, Puerto Rico

## 2) Approach

- a) **Require one system provider and operator to take responsibility for vehicles, signals, power, track, yards, and shops, and operation and maintenance for ten years.**
- b) **Retain public sector control of schedules and fares, and retention of fare revenue.**
- c) **Allow private operator to receive 50% of fare revenue above initial prediction, to provide incentive but low risk.**

## III-B Design-Build-Operate-Maintain Procurement of Tren Urbano in San Juan, Puerto Rico

### 2) Approach (cont'd)

- d) **Demonstrate clear government capacity and willingness to invest in capital and pay operating and maintenance subsidy.**
- e) **Organize aggressive outreach and marketing of the business opportunity to private sector, internationally.**
- f) **Use separate contractors for specialized tunnel construction, and relatively small segments to encourage local participation in construction, with public sector responsible for integration of interfaces, with support of systems and operations contractor.**

# III-B Design-Build-Operate-Maintain Procurement of Tren Urbano in San Juan, Puerto Rico

## 3) Results: Short-term

- a) **Substantial success at getting Metro underway in less time than normal. System approximately 80% constructed, with cost overruns and schedule slippage at similar level as traditional procurement.**
- b) **Great success at integrating operations perspective into the process.**
- c) **Great difficulty managing interfaces, with claims-oriented contractor behavior and "extortionate" behavior by at least one major contractor creating delay to gain leverage over government.**
- d) **Requirement for strong public oversight of construction process.**
- e) **Rhetoric of privatization a constant problem with contractors seeking to evade clear requirements of contract.**
- f) **Substantial weakness in private sector capacity to integrate civil and system work.**

## III-B Design-Build-Operate-Maintain Procurement of Tren Urbano in San Juan, Puerto Rico

### 4) Prediction of Results: Long-term

- a) **High-quality transit service with multi-year management philosophy providing better service than possible with traditional one-year public management model.**
- b) **Reasonable cost, quality, and schedule performance, comparable or superior to traditional method.**
- c) **Need to develop stronger public sector oversight capacity for public transit.**
- d) **Expect re-written history with excessive claims of success by private companies.**

# III-B Design-Build-Operate-Maintain Procurement of Tren Urbano in San Juan, Puerto Rico

## 5) Lessons Learned

- a) **Great strategic advantage over traditional method in ability to get moving more quickly, make course corrections.**
- b) **Great need for competent management in public sector.**
- c) **Interface control, extortionate behavior a constant problem.**
- d) **Multi-year operator and maintenance philosophy within system group very valuable.**
- e) **No free lunch. Stable reliable payment of investment and subsidy by public sector essential.**
- f) **Constant risk that excessive rhetoric of privatization may lead to underfunding of public oversight and underfunding of subsidy requirements.**
- g) **Transition problems at end of ten-year contract still uncharted territory.**

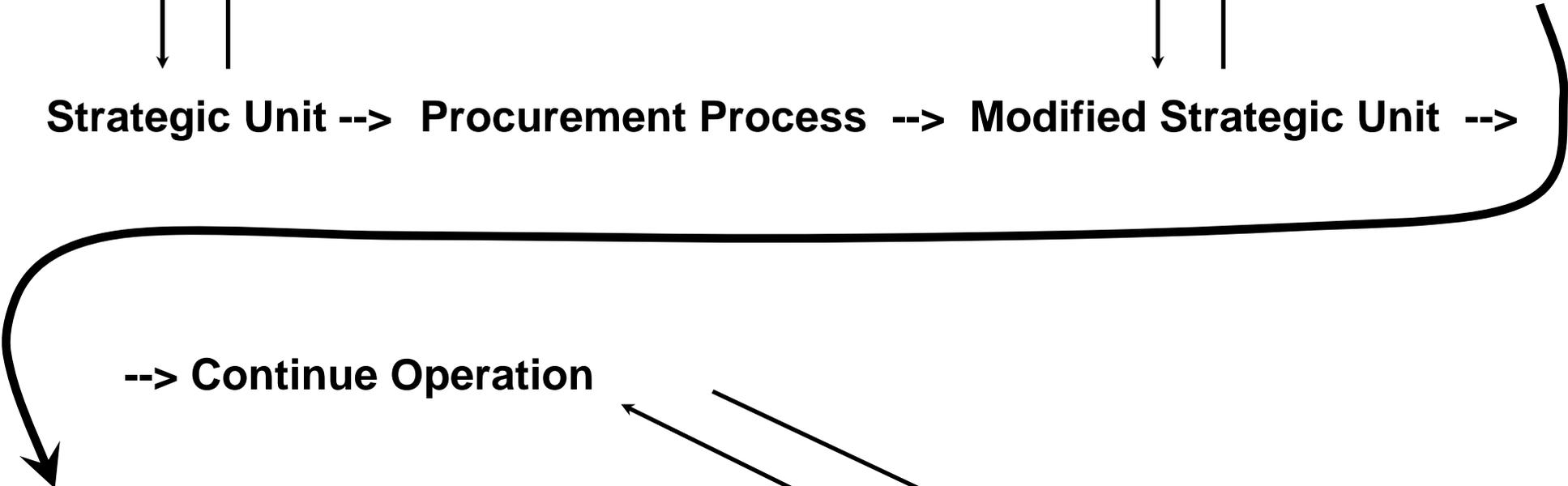
### III. Lessons Learned Overall

- A) Private contracting can be a successful strategy to turn around a bad situation expeditiously.**
- B) Transition problems are high, and requirements for honest, competent public sector management and oversight are very high.**
- C) No substitute for reliable public funding of investment and subsidy.**
- D) Support of labor unions key.**
- E) Complex interfaces among contractors very difficult to manage.**
- F) Multi-year management opportunity very useful.**

**Public Operation --> Continue Operation --> New Private Operator -->**

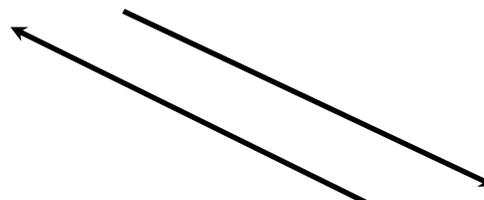


**Strategic Unit --> Procurement Process --> Modified Strategic Unit -->**



**--> Continue Operation**

**--> Re-Bid**



**Strategic Unit**



**New Private Operator II --> Operate**

# SOCIETAL

Riders seen as customers: Yes/No

Labor seen as dignified: Yes/No

Many competent Providers: Yes/No  
Labor seen as partner: Yes/No

**CONTRACTOR:**

**AGENCY**

	Honest, Competent	Honest, Bureaucratic	Incompetent, Corrupt
Honest, Competent	+ + +	+ +	+
Honest, Mediocre	+ +	+	+ ?
Corrupt	-	--	---

**Over time, management capability of strategic unit is likely to degrade from honest/competent to bureaucratic or incompetent, and sooner or later, corruption will become a problem with either the agency or government (private firm may well change over time: McDonalds Principle)**