

# Transportation Management Associations and Privatization

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The role of transportation management associations (TMAs) within the broader context of privatization is examined and their potential for the delivery of innovative, less expensive, and responsive service is evaluated. Findings support their further development and suggest that federal, state, and local governments consider strategies to encourage their formation. The results reported here are based on information collected in a survey of TMAs and previous research findings. A survey of Executive Directors and Boards of Directors of 110 TMAs was conducted in 1991 with a 55 percent response rate. The benefits of privatization are examined from both a historical and a contemporary perspective, focusing on recent government initiatives to enhance the role of the private sector. Although TMAs were initially formed almost a decade ago, there has been little evaluation; in fact, more than 50 percent of existing TMAs have not conducted an assessment.

Transportation management associations (TMAs) represent an opportunity to merge the public and private sectors in a manner that is potentially innovative, less expensive, responsive to local needs, and comprehensive. Governments have a long history of cooperation with the private sector for a wide variety of services. Recently, there has been a call for increased involvement by the private sector in the provision of mass transit, because privatization potentially reduces costs and increases efficiency. There are many methods by which governments can privatize some of their transportation services, and transportation management associations (TMAs) are one of the most innovative and uncomplicated ways for the private sector to provide transit on a relatively small scale. In this paper TMAs are examined within the context of privatization and their potential for innovative, less expensive, and responsive service is evaluated. Findings suggest that federal, state, and local governments should consider investing in strategies that will encourage the formation of TMAs. There is continuing need for objective, analytic assessment of TMAs; more than 50 percent of existing TMAs have never conducted an evaluation. The results reported here are based on information collected in a survey of TMAs and previous research findings. The survey of Executive Directors and Boards of Directors of 110 TMAs was conducted in 1991 with a 55 percent response rate.

## HISTORY OF PRIVATIZATION OF TRANSPORTATION SERVICES

From the beginning of organized transportation, private operators were involved in service delivery. A private operator

is anyone who owns a mode of transportation or a person or firm whose business it is to make a profit by transporting people or goods. By the end of the 19th century, cities had granted electric streetcar franchises to private operators, and developers often funded the construction of these lines to increase the value of outlying properties. Until the early part of this century, all roads were state-owned or privately owned, with no assistance for planning, engineering, construction, or maintenance. With the creation of the Bureau of Public Roads in 1916 and the Federal-Aid Highway Act of 1934, the federal government substantially increased its role in the provision of transportation services.

All of the nation's available resources were consumed during World War II, and operators attempted to maintain existing service while meeting the great demand for new services. In 1944 private transit operators carried over 23 million passengers, the largest number of transit passengers ever (1). In that same year, Congress passed the Federal-Aid Highway Act of 1944, which chronicled the ever-increasing role of the federal government in the provision of transportation services. This act authorized federal-aid highway funding up to 45 percent for primary roads, 30 percent for secondary systems, and 25 percent for an urban extension of primary and secondary roads. Buses were the preferred method of public transportation, and bus systems operated under the same franchise system that governed their predecessors, the streetcars.

After the war ended, transit ridership decreased by the same rate at which it had increased during the war. Ridership dropped from about 17 billion passenger-trips in 1950 to fewer than 9 billion passenger-trips in 1961 (2). People bought automobiles at record rates and moved to the suburbs. Transit operators found themselves in financial trouble during this period because of long-deferred maintenance and labor demands. Public transit authorities were created, and they operated the financially strapped businesses in many cities. The earliest notable ones are the Chicago Transit Authority and the Metropolitan Transit Authority of Boston, created in 1947, and the New York City Transit Authority, created in 1955 (1). Because of market failures, the role of the private provider of transportation services decreased during the next decades, except those in air and water transportation.

In 1964 Congress enacted the Urban Mass Transportation Act providing federal grants to cities for the purchase of local transit companies. By 1980 the public sector owned and operated 92 percent of all bus and rail transportation in the country (2). During this time, ridership continued to decrease, and operating deficits grew. In 1974 the federal government authorized subsidies for local transit authorities, but these subsidies failed to reverse the trends. Federal, state, and local

subsidies for public transit rose from \$132 million in 1970 to over \$5 billion in 1983. Ridership, on the other hand, remained at about 6 billion passenger-trips a year during the same period (3).

As the demand for federal assistance grew, the government's ability to provide that assistance decreased. During the Reagan Administration the privatization of many services, including transportation, was considered an effective way to generate revenue and lower costs. The logic behind this is that through the privatization of transportation services, competition for services increases. Increased competition potentially increases efficiency and reduces costs (4). The public transportation marketplace would change as a result of competitive forces, rather than through public regulation. Studies have shown that private-operator labor costs are about half of public-operator labor costs (5). Governments could benefit by selling their physical assets and shifting the money to other programs. To achieve a greater level of private participation in the transportation marketplace, the U.S. Department of Transportation attempted to remove barriers in the operation and financing of transportation services.

In 1984 the former Urban Mass Transportation Administration (now the Federal Transit Administration) issued a Policy on Private Participation in the Urban Mass Transportation Program. This policy provided guidelines for compliance with several sections of the Urban Mass Transportation Act (1). Section 3(e) prohibited unfair competition with private providers by publicly subsidized operators. Section 8(e) required maximum participation of the private sector in the planning of public transportation services. The Surface Transportation Assistance Act of 1982, which added Section 9, established procedures for involving the private sector in the development of the Transportation Improvement Program (TIP) as a condition for federal funding (1). This policy calls for the early involvement of private providers in the development of new transit services and for their maximum feasible participation in the provision of such services. The policy identifies the principal criteria used by UMTA to determine if recipients have complied with the statutes. UMTA requires the transit agency to consult private providers when it develops plans for new or restructured services.

In addition, transit agencies must consider private carriers for the provision of new or restructured services, and they must also use a true comparison of cost when comparing publicly provided service with that of private providers (1). This policy represents a major departure from past federal policy toward public transportation operators. Previously, public operators had virtually monopolized federal funds for transit facilities, equipment and service. With the enactment of this policy, transit agencies needed to consider private-sector operators as competitors for the provision of transportation services (1). Local transit agencies began to implement the policy almost immediately. By 1988, 35 percent of local transit agencies had contracted out at least a portion of their service to private providers (6). Public transit agencies are also exploring other ways to involve the private sector in the provision of public transportation, such as impact fees and TMAs.

In this decade, cities and states face unprecedented budget crises, the transportation infrastructure is deteriorating, and the administration wants to reduce funding. State and local governments are proposing tax increases and service reduc-

tions in response to shrinking budgets. In this environment, the privatization of transportation services can be a viable alternative to service reductions and increases in taxes. In March 1991, the New York City Council's Economic Development Committee heard testimony concerning the sale of LaGuardia and Kennedy airports. The sale would bring an estimated \$1 billion to the city of New York, along with millions in tax revenues (7). This kind of approach, in which the public sector sells facilities and then contracts with the purchasing authority, is representative of another aspect of privatization.

There is, however, a major federal obstacle that attenuates the feasibility of privatization of transportation services. Most local governments finance their infrastructure projects in part with federal grants from agencies other than UMTA. In return for these grants, the federal government requires local governments to sign detailed grant agreements, many of which discourage privatization. In one case, the proposed sale of the Albany, New York, airport was prohibited by the Federal Aviation Administration (FAA) because of FAA's interpretation of the grant agreement (7).

In 1988 every federal agency adopted the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments. These guidelines permit local and state governments to terminate a federal grant unilaterally for any reason. Before 1988, the law required that both parties agree to the termination. In the event of a termination, the grantee must negotiate a settlement for the outstanding grant obligations, either directly with the granting agency or, if the agency is uncooperative, with the Justice Department (7). With these guidelines, local governments can take steps to investigate the privatization of transportation or other services.

## PRIVATIZATION OF PUBLIC SERVICES

Privatization of a public service is the direct and voluntary involvement of the private sector in the planning, funding, delivery, operation, and ownership of a traditionally public service (8). There are three categories of privatization: private-sector choice, financing, and production of a service; public-sector choice and financing with private-sector production of the service; or deregulation of private firms that provide a service (9). In the first category the public sector transfers all responsibility for a service to individual consumers. These consumers first select the level of service that they desire and then purchase that service from private suppliers. Government involvement is minimal. In the second category of privatization, the public and private sectors are both active in the provision of services. Consumers collectively select and pay for the amount and type of service desired through the government. The government then contracts with private firms to produce the desired quantity and type of service. The third category occurs when governments reduce or eliminate the restrictions imposed on private firms that provide individually selected services.

The private sector finances and produces traditional public services and has been increasing its involvement. Private companies across the nation are already experimenting with new opportunities. In Pittsburgh, Pennsylvania, the developer of

an office complex near Three Rivers Stadium plans to provide a peplemover service that would connect the project to the city's light rail transit system. The developer will contribute to the financing and construction of the peplemover. Additional funds will come from parking revenue at Three Rivers Stadium and advertising, and the system will operate without charging fares. The capital costs of this project will be 30 to 50 percent below public construction costs, and operating costs will be less than half of a public agency's operating costs (10). In Chicago, Illinois, about a dozen private companies operate fleets of subscription buses that connect the downtown with the suburbs. Passengers subscribe to the service on a monthly basis. The system competes directly with the city's commuter rail line and operates as a charter bus service to avoid the quagmire of route and price regulation (11). Just outside of Dallas, Texas, in the planned city of Las Colinas, developers and property purchasers are funding an automated system designed to link all of the major urban centers of the new community (8). In Tysons Corner, Virginia, area businessmen responded to the inadequacy of public transit by forming the Tysons Transportation Association (TTA), one of the country's first TMAs. TTA installed and currently operates a vanpool system for employees of member businesses, and the revenue necessary to maintain the system is generated through fare collection (12).

The private sector produces publicly selected and financed goods in three ways. First, the private sector can produce intermediate goods, such as vehicles and computers, that the government uses to supply the final service. The private sector may also produce services, such as maintenance or accounting, that the government must buy in order to carry out its operations. Finally, private producers can provide the final services, such as education, police and fire protection, and transportation, that are consumed directly by the public (9). The provision of the final service itself is usually the objective of privatization.

Governments throughout the country are contracting with private companies for the provision of final services. In New Jersey private carriers operate 35 percent of the state's commuter bus transportation (13). In Las Vegas, Nevada, the city government recently awarded a contract for the provision of a new transit service. Under the terms of the agreement, the city provides the right-of-way for the system, and the private company finances, builds, owns, and operates the system (8). Johnson County, Kansas, a suburban county of Kansas City, Missouri, contracted its commuter bus service to a private provider because of dissatisfaction with the service provided by the public transit agency in Kansas City. Under the terms of the contract, the government requires the provider to paint and maintain its vehicles to county standards. The government has also imposed certain performance standards on the service (14). One major barrier to contracting out is Section 13(c) of the Urban Mass Transportation Act of 1964, which provides public-sector transit employees with extensive protection against any federally supported activity that may threaten their jobs. Unions may use this provision to block attempts to contract services out. Contracting also suffers from a lack of visibility, and many private operators do not take advantage of the opportunity to bid on contracts.

The third and final type of privatization involves the relaxing or lifting of restrictions that the government can impose

on private providers of transit services. These regulations often prevent smaller private firms from entering the market. For example, many cities restrict the number of taxis that can operate in the city, even though taxis may be an economical alternative to public transit in low-density residential neighborhoods. Studies indicate that in areas where government deregulates entry into the taxi market, the quality of the service improves. Free entry results in shorter waits and better integration with local bus and rail systems (3).

Another private transit alternative that suffers from heavy government regulation is the jitney. A jitney is a small van or station wagon that carries a small number of passengers along a semifixed route on a regular basis. Jitneys were popular in this country in the early part of this century, but cities eventually banned them through the efforts of trolley operators, who claimed that they were unlicensed and cut into their rush-hour profits. Jitneys are quite popular in developing nations because they are relatively inexpensive; in fact, they operate illegally in many cities in the United States because of the demand by lower-income groups. San Diego, California, legalized jitneys in the early part of the 1980s, and by 1983 they carried 12,000 passengers a week at fares that were significantly less than those charged by taxis (3).

Government regulation can also work against vanpools and commuter buses. The courts usually consider these services to be public carriers; therefore, these services are subjected to the same route and fare regulations that govern public transit. As mentioned earlier, the subscription bus service in Chicago can remain in business only because it operates as a charter bus service. Recently, several states have exempted employer-sponsored vanpools from regulation, and Tennessee even allows private bus service without regulation in specially designated "citizen transportation areas" (3).

Governments desire privatization because it can be a way to reduce public costs. In looking at the cost savings accrued through privatization, the argument is that government producers have no incentive to hold down production costs, whereas private producers who contract with the government do. The lower the cost incurred by the firm in satisfying the contract, the greater the profit will be for the firm. Competition among potential private suppliers for a contract (for a limited period, after which the government can change contractors) will result in the lowest possible cost for the specified level of service (9). The following quote summarizes the argument:

Competitive bidding by profit-maximizing firms for a well-specified output guarantees that the product will be produced at the lowest cost. The absence of competition and profit incentives in the public sector is not likely to result in cost optimization. (15)

Three potential sources of lower production costs for private firms are lower labor costs and better management, more research and development, and faster innovation of the results. Lower labor costs result either from lower wages, which implies that the government pays inflated wages for a given skill, or from less labor input, which suggests that the government either employs too many workers or uses inefficient production methods (9). A private firm is more flexible than a public transit agency. Private operators may try out different approaches more quickly, whereas government tends to adhere to the current approach because change often creates

substantial political difficulties for local officials. Better management or experimentation and innovation with different production methods may be the reason for lower production costs and fewer workers. In addition, private firms may use retained earnings to finance research or to purchase new capital equipment, which lowers unit production costs. Government may not allocate tax revenues to those purposes as easily because there are many competing demands for a share of a government's budget (9). Clearly, these are characteristics that should be applied in public service delivery.

### TRANSPORTATION MANAGEMENT ASSOCIATIONS

TMAs are one form of privatization of public transit; they are also known as transportation management organizations (TMOs). They are public-private partnerships with a strong emphasis on private-sector participation. Many TMAs form as a response to the problem of traffic congestion in suburban areas (16). Other reasons for the formation of a TMA include the promotion of economic development and the improvement of air quality. Today there are 110 TMAs in various stages of development across the country. Most of these organizations started up within the last 3 years, although the first TMAs were initially formed almost a decade ago.

#### Structure of TMAs

TMAs have an overwhelming private-sector composition and orientation (Table 1). The average TMA consists of about 30 member organizations, 22 (73 percent) of which are private, for-profit firms. Another six (20 percent) of the member firms are private, nonprofit groups, and two member organizations (7 percent) are public agencies. Corporate membership is usually voluntary, and each member often pays membership dues. This money could be considered public money spent by the private sector. Additional sources of revenue include contributions from developers and local government and fees collected from the users of certain services. A Board of Directors governs the overwhelming majority of TMAs (82 percent). The average board consists of about 14 members, 12 of whom (86 percent) are allowed a vote. In most cases, the board appoints an Executive Director to administer the TMA. On average, eight board members (57 percent) represent private, for-profit firms. Private, not-for-profit organizations and public agencies have three representatives (21 percent) apiece.

TABLE 1 STRUCTURE OF TMAs

Characteristic	No.	Percent
Average size	30	—
Member organizations		
Private		
For profit	—	73
Nonprofit	—	20
Public agencies	—	7
Governed by Board of Directors	—	82
Private for profit	—	57
Private nonprofit	—	21
Average Board size	14	

Almost all private, for-profit board members may vote, but members representing other interests receive that privilege less frequently. When surveyed, board members cited the following reasons for joining the TMA board: to address local transportation problems, to represent their organization directly, to assist in the establishment of the TMA, to serve as a liaison between the TMA and other organizations, or all of those reasons (Ferguson et al., unpublished data).

The most common goals of TMAs are the implementation of travel demand strategies, such as ridesharing and transit use, and the reduction of congestion and pollution. TMAs typically include information on carpools and public transit scheduling, guaranteed rides home, and vanpools. In addition to these services, several TMAs also operate as advocates in local politics. The members of TMAs often have considerable influence with local government, and the TMA can organize this influence into a significant lobbying unit. TMAs have also negotiated with local public transit agencies for route adjustments that better serve the needs of the community (17).

Examples of TMAs include, among many others, the Woodlands, a mixed-use development outside Houston, Texas. Here the developer provides a vanpool to residents of the community because public transit does not service the area. The Hacienda Business Park in Contra Costa County, California, developed a program that focused first on the promotion of ridesharing. In later stages the program will expand to include flexible work hours and shuttles to public transit stations. The El Segundo Employers Association in Los Angeles, California, was formed to address transportation problems at Los Angeles International Airport (LAX). The association is responsible for the implementation of reversible lanes at the airport, a carpool and vanpool program, a flexible-work-hours program, and the provision of a bike path (18).

TMAs are not being effectively monitored. In fact only 19 percent have participated in any kind of an evaluation and therefore it is difficult to ascertain the magnitude of their impact on privatization:

Status of Evaluation	Percent
Evaluated	19
Not evaluated	54
Planned evaluation	
Yearly	24
2-3 years	31
Never	20

#### Privatization and TMAs

The provision of mass transit services presents both the public and private sectors with two potential roles: service sponsor and service provider. A service sponsor decides what services to provide and their characteristics, such as routes, schedules, and fares. The service sponsor arranges for provision of the service. The sponsor's role is essentially one of policy making, planning, and facilitation. The service operator, on the other hand, actually produces the service—operates and maintains the vehicles, hires the drivers, and so on. There is no reason why sponsor and operator must be the same organization, and in many public services different groups play each role (5). In traditional mass transit, the government is both sponsor and operator. Most discussions of privatization focus on the

private sector as service provider, with the government maintaining its role as sponsor. For example, the government may contract out its bus routes but at the same time may impose certain performance standards through the contract. The public sector remains the sponsor of the service and retains control over the amount and quality of transit service provided (5). A good example of the two roles exists in New York City, where private firms provide about 15 percent of the local transit service. However, local-service bus firms, which also provide some express bus service, have exclusive rights to the routes they operate. The government, however, still regulates fares and other service features (5). This type of privatization, with government as service sponsor and the private sector as service provider, presents several potential obstacles:

- Transit managers tend to view privatization of transit services unfavorably.
- Transit labor unions are almost always opposed to contracting.
- When subsidy sources are dedicated exclusively, as is often the case for large transit agencies, transit policy makers may lack the incentive to support contracting.
- The service quality of private operators may be below public agency standards, creating dissatisfaction on the part of the sponsor and the patrons.
- Finding a suitable private provider may be problematic, and maintaining a competitive environment may be difficult.
- Although the monetary savings may be impressive in percentages, the dollar amounts may not be enough to warrant contracting (19).

With TMAs, the discussion of privatization acquires a slightly different perspective. In this case government is neither service sponsor nor service provider. The TMA is formed by its members' volition, and they decide what services to offer and either provide those services directly or contract them out. The TMA is almost always the service sponsor and frequently the service provider as well. The role of the government is that of advisor.

As a result of this difference in roles, some of the aforementioned obstacles to privatization may no longer apply. The government does not have to find a suitable private provider, and competition is irrelevant because profit is not a major motivation for most TMAs, as indicated by the goals and objectives mentioned earlier. TMAs form in response to shortcomings in the public transit system and provide services that currently do not exist. As a result, labor unions and transit managers may argue in favor of the public provision of those services, but the initiation of new services does not threaten jobs or subsidies. The problem of the quality of service should take care of itself. If users are dissatisfied with the service, they will stop using it. The purpose of the TMA is to encourage alternatives to automobile commuting. The quality of the service must be such that these alternatives are attractive to potential users.

With the new definition of roles comes a new set of potential barriers. The creation of a TMA depends almost entirely on private-sector initiative. The private sector decides that the area needs a TMA, and the private sector can dissolve the TMA at any time. Even if some business leaders do organize a TMA, membership is voluntary, and not all businesses in

the area served must belong. The government must identify strategies that encourage the formation and the perpetuation of TMAs, as well as policies that encourage businesses to join.

The government can encourage the formation of TMAs by making them mandatory. There are several tools that the government can use to accomplish this objective. Localities may enact trip reduction ordinances, which force businesses to investigate methods by which the number of trips to and from their locations may be reduced. Government may also tie the formation of a TMA to the granting of building occupancy permits and the approval of rezoning requests. The government may also, for budgetary reasons, not be able to extend transit services to a new development. Because accessibility and convenience are important to both employees and customers, the firms in the project may want to provide some transit services of their own. Developers can also require membership in the TMA as part of the lease agreement.

There are also several incentives that government can offer. For example, because many TMAs attempt to link an area with existing public transit lines, the public sector can offer discounted passes for TMA members. The local government can also offer property tax breaks for businesses that join a TMA. Developers who agree to help start up a TMA in their lease agreements could be exempted from paying certain impact fees.

## CONCLUSIONS

TMAs are but one technique that governments can use to privatize transit services. These associations have several features that appeal to the public sector: they require relatively little public money, and they offer a degree of flexibility in the provision of service that large public transit agencies lack. TMAs also indicate a willingness among developers and business leaders to assume some of the responsibility of meeting the transportation demand that their operations generate. In addition to these benefits, governments should be aware of the following characteristics:

- TMAs are formed mainly through the initiative of the private sector. Governments may have limited ability to require TMAs, but the most important role of government is that of advisor and coordinator. Governments need to explore incentives that will lead to the formation and continuation of TMAs.
- TMAs serve private-sector interests. The majority of voting members on the average TMA board represent private, for-profit firms. Governments must insist on the consideration of public concerns.
- The service area of a TMA is usually quite small as compared with those of public transit agencies. TMAs often serve only the needs of a specific service activity area within the community. Governments should explore ways to expand the scale of TMA operations.

TMAs are an innovative mechanism for the privatization of transit services, and governments should examine their potential in meeting local transit demands and develop creative support mechanisms.

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