



ADVANCING LIBERTY
WITH RESPONSIBILITY
BY PROMOTING
MARKET SOLUTIONS
FOR MISSOURI
PUBLIC POLICY

TESTIMONY

SEPTEMBER 3, 2008

METRO BOARD OF COMMISSIONERS

By David Stokes

Chairman Watson and Honorable
Members of the Board of
Commissioners:

Thank you for the opportunity to submit my comments about the upcoming sales tax vote in Saint Louis County, the proposed service cuts if the tax increase does not pass, and more. This testimony follow-up on comments I made last month at Metro's invitation at the Missouri Public Transit Association's convention. The primary point of this testimony is not about the proposed service cuts, but about alternative ways of financing and providing mass transit in general. These ideas will hopefully be given consideration whether or not the voters pass the sales tax increase, although they may be more imperative should it be defeated.

Before I discuss alternative provision of transit, I would like to briefly consider the possibility of fare increases. I am well aware that transit is subsidized just about everywhere, to varying degrees, and that society as a whole gains from effective mass transit. However, there is nothing wrong with making the riders of the system pay as much of the cost of

it as reasonably possible. In years past, I have heard, on numerous occasions, Metro officials explain the cost and demand curve of a fare increase. I understand and appreciate that in the past, fare increases were inevitably met with substantial ridership reductions. However, these past fare increases also occurred during a long period of remarkably stable and inexpensive oil and gas prices. If the cost of ridership was increased then, potential riders would reconsider the cost equation of transit versus driving. In many of those cases, fare increases led to riders re-evaluating the cost of driving and deciding in favor of driving.

I propose to you that in light of the sharp increases in the price of gasoline over the past three years, and the likely maintenance of gas prices at a significantly higher level than they were just a few years ago (even considering the welcome reduction downward from \$4 a gallon), that the vast majority of the riders of the system would continue to use Metro's busses and light rail after a fare increase. Fare increases to \$2.50 a bus ticket, or \$1 for a transfer, or \$3 to ride the light rail, are still very

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The available studies offer a genuine mixed bag, with charters slightly outperforming traditional public schools in some areas, traditional public schools slightly outperforming charters in other areas, and no apparent difference in performance in the remaining number of cases.

inexpensive when the overall costs of driving are figured alongside \$3.00 a gallon gas. In my opinion, the primary effect of increased MetroLink fares would not be decreased ridership, but potentially increased fare evasion. This is an argument to increase enforcement, though, not to keep fares artificially low. As I stated, making the user of a service pay for the service is good policy. In some government examples, such as a home inspection fee or a park facility rental fee, it is theoretically possible to recover close to 100 percent of the cost of that service. For others, such as police protection and urban mass transit, it is either theoretically impossible or completely unrealistic to recover 100 percent. In the case of police protection, it is impossible because it is morally and logically unsound to charge or tax someone more because they might require more police protection, i.e. someone who lives in a violent neighborhood. As for mass transit, if you charged the full cost recovery of the service you would almost certainly price out some of the people who need the service the most. But with that fact in mind, Metro should still recover as much of the cost of services as possible from the people who use the service. Using Metro's own 2006 data, taxpayers subsidized every systemwide passenger boarding to the amount of \$2.46. It seems simply absurd to argue that taxpayers who do not use transit do not give enough money to those who do. While it is reasonable to subsidize the single parent who needs mass transit to get to and from work, it is just as unreasonable to subsidize the Cardinals fan or the Mardi Gras parades. Striking the right balance might be a difficult task for Metro, but

relying solely on increased subsidies is unfair and, by increasing the tax rates, harmful to our economy.

The most important long-run decision for Metro, though, is not a fare increase. The most important decision is to consider whether or not Metro is willing to fundamentally change the way it provides transit and to consider the opportunities presented by private financing and private partnerships. The Denver Regional Transportation District provides 46 percent of its fixed route bus services and all of its door-to-door services for the disabled through competitive contracting. In competitive contracting, a transit agency determines the scope and goals of service provision, such as the bus route and the preferred schedules, and invited private businesses to bid on performing that service. No one is suggesting that private businesses are going to magically turn a profit on these routes. Instead, to quote David Horner, Chief Counsel to the Federal Transit Administration in April 17, 2007 testimony to Congress, "Private operators then compete for the opportunity to provide services not by bidding up the concession payment but by bidding down the subsidy." He terms the use of private companies to provide transit as, "subsidy minimization." While this differs from many road or bridge partnerships in which substantial up-front payments to governments are often made by private providers of services, it nonetheless can save taxpayers significant sums of money. A study by Wendell Cox found that competitive contracting saved Denver RTD \$51.5 million between 1989 (when it was begun) and 1995. Since then the contracting program has been expanded, and so too, presumably, have the savings.



Like Denver, Las Vegas has made extensive use of competitive contracting in its provision of mass transit. One of America's fastest growing cities, Las Vegas contracts out the majority of its bus services to private providers.

Denver is going even further with its radical changes to the way transit is provided. In the summer of 2008, Denver RTD issues a request for qualifications from contractors to build four new commuter rail lines. This was the opening step in using private companies to design, build, finance, operate and maintain an expanded light rail and commuter rail system for Denver. The first example of the use of private partnerships in light rail in the United States was the Hudson-Bergen line in New Jersey. According to Mr. Horner's testimony, that private partnership resulted in the light rail line **entering service five years ahead of schedule with an estimated cost savings of up to \$345 million.** While there may well be statutory limits to what Metro can do in this regard, we all know it only takes political will and effort to get those changed. More importantly, it takes creativity and a willingness to work with the private sector to rethink how transit is provided in Saint Louis.

Metro knows how important federal funding will be in making the desired expansion of MetroLink a reality. Comments made by Federal officials at the fifteenth anniversary of MetroLink event at Washington University this summer, as well as Mr. Horner's testimony, make clear that large-scale transit capitol projects that involve private partnerships will receive

favorable treatment and have a higher chance of obtaining the necessary federal funds. Every transit agency in Missouri should be on the forefront of private partnerships in mass transit. Whether or not the voters of Saint Louis County pass the sales tax, I recommend that Metro strongly consider the possibilities offered by competitive contracting and private business financial partnerships.

Sincerely,
David Stokes
Show-Me Institute

Average performance in Saint Louis seems better than Kansas City in the lower grades, but for students at the eighth-grade level and higher, Kansas City students in both charter and traditional public schools achieve higher average performance than Saint Louis students.



SHOW-ME INSTITUTE POLICY AREAS

TAXES

Our economy works better when the tax system is simple, fair, and lets workers keep more of the money they earn. Show-Me Institute scholars study the impact of tax and spending policies, and develop reforms that will give us more for our tax dollars and spur faster economic growth.

EDUCATION

The latest education research confirms what common sense has always told us: Kids learn better when their parents have more choices. The Show-Me Institute studies how to empower parents by expanding educational options and providing them with better information, so that every child can attend a school that best meets his or her unique needs.

CORPORATE WELFARE

From eminent domain abuse to subsidies and tax breaks for the powerful and well-connected, government officials often try to pick winners and losers in the market. The Show-Me Institute develops policy recommendations to protect property rights and promote economic growth without caving in to demands for corporate welfare. Secure property rights encourage investment and entrepreneurship. Trying to create economic success through government intervention is a formula for failure.

HEALTH CARE

The standard employer-based model for health insurance leaves a remarkable number of people out. The Show-Me Institute highlights the ways that a consumer-driven, market-based model for coverage can help more people get the care they need while taking ownership for their own health and lifestyle decisions.

PRIVATIZATION

Many government services can be provided more effectively, and at a lower cost, by the private sector. When public services are provided by private industry, economic incentives and accountability provide a critical feedback loop that is largely absent in government bureaucracy. Show-Me Institute scholars analyze public programs to determine how taxpayers can benefit from market-based alternatives.

RED TAPE

One thing that government officials do well is establish barriers to market innovation and erect hurdles for entrepreneurs to clear. The Show-Me Institute is committed to showing how burdensome regulations stand in the way of economic growth and individual prosperity. Market solutions lose their strength when bound by red tape.



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