



***INFRASTRUCTURE POLICY WORKING PAPER SERIES***

# **CONTRACTING FOR URBAN BUS SERVICES IN THE US: REVISITING THE LEAST-SUBSIDY BIDDING APPROACH**

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## ABSTRACT

The contracting out of public services has garnered widespread academic interest. Recent research focuses on the pros and cons of alternative contracting forms. One widespread approach is competitive bidding to contract out urban bus services. Historically, the US has reserved urban bus operations for public companies. Nevertheless, we want to shed light on an approach we view as underappreciated: Least-Subsidy Bidding (LSB). LSB contracting is one type of reverse auction under which providers compete for monopolistic rights given a certain predetermined level of service for services that require Government subsidies to operate. LSB has been used in other countries, including the UK and Australia, to encourage private participation in the provision of urban bus services. Via competitive bidding, LSB helps taxpayers obtain the greatest value per dollar of public subsidy expended. We explore the strengths and weaknesses of the LSB as applied to urban bus systems. We consider bus operations which farebox revenue is insufficient to cover operation and maintenance costs and would thus not attract private operators absent such subsidies. The United States has experience with partnerships between the private and public sectors in infrastructure via PPPs. This knowledge can be harnessed and transferred to the urban bus market in the form of a public-private operating partnership, or PPOP. Evidence indicates that urban bus operations are facing budgetary constraints under current funding mechanisms. Moreover, urban buses have lost patronage in recent decades despite population growth. There are numerous causes in the United States. Those include public investment constraints, lack of public policies to incentivize bus usage, lack of innovation by the state-owned operators, lack of infrastructure (e.g., better bus stops, dedicated bus lanes, terminals, etc.), and the rise of private cars and urban congestion. We show that, in cases where the farebox revenue cannot cover operational costs (i.e., where operations are unprofitable), the government can spur private participation through the LSB. Establishing a concession contract in a reverse auction can relieve the public deficit while transferring some operational and revenue risks to the private operator.

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