

# The Private Sector And Public Transit Service In Canada

## Overview

The private sector has been actively involved in Canadian public transit systems since the industry's early days, when privately owned streetcar operators were the norm. But by the mid-twentieth century, the dawning of the automobile age had weakened transit markets and transit operations gradually became a public-sector enterprise.

A recent global trend towards an enhanced role for the private sector in public transit has been most evident in Europe, Asia and Australia. In Canada, the private sector's role tends to be greater in small cities than in larger ones. Tendering of service contracts by smaller systems is common. For example, the British Columbia government coordinates three-way agreements with municipalities (outside Vancouver and Victoria) and service providers, which frequently are private companies. The government of Quebec has also enabled the private sector's more active participation in small transit systems over the last 20 years.

In larger cities, the private sector has limited involvement in conventional surface transit operations, with some exceptions (including in Quebec, where the provincial government now requires larger systems to competitively tender some routes). Commuter rail systems in Canada's largest urban centres are contracted out, as are some specialized transit services for persons with disabilities.

The private sector's most significant recent advance into public transit service provision has been through the creation of public-private partnerships for rapid transit projects in several large cities. This development is supported by federal and provincial governments, and initial experiences will likely do much to shape the future of this business model in Canada's transit industry.

Finally, the private sector is also involved in more peripheral areas of transit system operation, including customer information, advertising and facility management, and fleet maintenance.

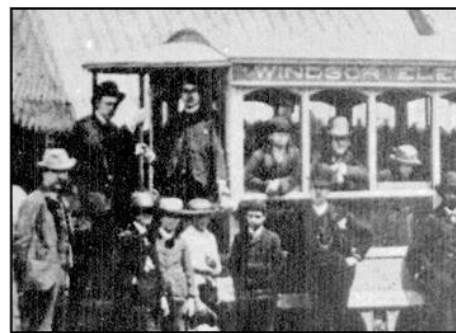
## Resources

- Transportation Research Board, *Making Transit Work: Insight from Western Europe, Canada, and the United States* (Special Report 257), 2001

## Historical and international context

Canada's private sector has a long and rich history of involvement in delivering public transit service. Many of the country's early streetcar operators were private businesses, including the Toronto Street Railway Company which operated horse-drawn streetcars as early as 1861. In 1904, it was a group of private transit operators that formed the Canadian Street Railway Association, the predecessor of today's Canadian Urban Transit Association as the voice of the public transit industry.

Over the first half of the twentieth century, the private sector's dominance of the transit industry declined as growing cities began to face new challenges. In Toronto, the offerings of a dozen different streetcar operators (each with its own routes and fares) was confusing for users, and led to a consolidation of service in 1921 under the umbrella of a new public transit agency, the Toronto Transportation Commission. In other cities, the public's growing reliance on the private automobile weakened the transit market, and private transit operators found it harder to make a profit. Some municipalities started their own transit services because private operators were not interested in extending their routes to lower density, less lucrative suburban areas.



*The privately operated Windsor Electric Street Railway, opened in 1886, was the first electric streetcar service in North America  
(Source: Transit Windsor)*

Canada's gradual transition from private to public delivery of transit services during the middle of the twentieth century was echoed in the United States, while in European cities the public delivery of transit services has been consistently dominant. However, the last two decades

have seen a growing global trend towards an enhanced role for the private sector in public transit service delivery. This move to privatization has been most marked in nations across western and northern Europe and Asia, and in Australia. Change in the United States has been slower, but still more pronounced than in Canada. One of the highest-profile shifts from public to private delivery of transit services has occurred in England, where virtually all transit systems except London's Underground have been privatized and/or deregulated since the mid-1980s.

Many recent European reforms have been prompted by the desire of local or state authorities to control costs, and by the European Union's preference for giving the private sector better access to domestic transit markets. A third motivator has been the desire to improve service quality, requiring the creation of performance standards that set out transit service goals and expectations to be met by private suppliers — standards that former state-operated transit services may not have been held to.

## Overview of current status

Today, the role of the private sector in providing transit services to Canadian communities varies among cities and provinces.

In larger cities that have a long public transit history, social and political cultures tend to exude a strong sense of transit ownership. It is worth noting that this perspective has been significantly challenged, although with little overall effect, by the transit funding crisis of the last decade.

Smaller cities, by comparison, often see contracting out as an attractive way to deliver transit services. Financial constraints can lead them to place a high value on cost certainty, and their limited staff capacity makes contracting with the private sector a fast and flexible way to initiate, expand or modify transit operations. The practice of tendering transit services for competitive bids is common (as it is in some larger centres for specialized transit services used by persons with disabilities).

In general, though, the prevalence of contracting out transit services has not increased significantly in Canada, as it has in many other western nations. Rather, to the extent that the private sector is gaining new footholds in public transit delivery it is largely through public-private partnerships, relatively complex relationships between government and business that involve sharing both risks and rewards. In recent years, a few Canadian government agencies have experimented with different forms and elements of public-private partnership as a means to reduce the cost of rapid transit projects and speed their implementation (these cases are discussed below in greater detail).

The future prospects for private-sector involvement in Canadian public transit services may well be positive. Moves toward more extensive contracting out of surface transit routes may help to cut costs, but could face public and political resistance in many communities. And the experience with public-private partnerships in a small number of groundbreaking projects could determine whether that model becomes a preferred approach for major projects like new rapid transit lines.

The transit industry itself remains cautiously optimistic. "The Canadian Urban Transit Association promotes and encourages different approaches to transit service delivery and infrastructure provision that meets local needs," according to Michael Roschlau, the association's President and CEO. "There are strong reasons why private sector involvement can make sense, but not in all cases."

## Experience in Canada's smaller cities

Across Canada, the private sector's involvement in transit service delivery is most consistent among smaller communities. In the Northwest Territories, British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Newfoundland, many small cities have contracted out the operation of their conventional and specialized transit systems, and in some cases the related maintenance activities, to private companies.

British Columbia takes a systematic, province-wide approach to involving the private sector in transit service delivery. Conventional and specialized transit services in dozens of communities outside Greater Vancouver and Victoria are overseen by a provincial agency (BC Transit) that coordinates three-way agreements with municipalities and service providers. While communities control service levels and set fares, BC Transit contracts for service delivery with private companies or non-profit societies (and, in a few instances, the municipalities themselves).



*The operation of British Columbia's Whistler and Valley Express (WAVE) transit service is contracted out to a private company (source: Whistler Transit Ltd.)*

The government of Quebec is another that has taken steps to involve the private sector in the development and delivery of transit services. In 1983, provincial legislation permitted smaller communities around Montreal to create transit systems known as *conseils intermunicipaux de transport* by contracting with private companies. Because some

municipalities may have feared a loss of control over labour relations and the resulting vulnerability to a private-sector transit strike, the same legislation included a provision that would void municipal contracts with private-sector transit operators in the event of work stoppage due to a labour dispute.

## Experience in Canada's larger cities

**Surface transit.** Compared to smaller communities, Canada's larger municipalities make limited use of contracting to deliver conventional bus transit services. Two examples are the Greater Vancouver Transportation Authority (TransLink) which outsources three "community shuttle" bus routes to private contractors, and York Region Transit which retains three private companies to operate all of its regular bus routes in the Greater Toronto Area.

Only in Quebec is there movement towards the systematic consideration of outsourcing for surface transit routes in larger cities. In 2004, the Quebec government announced that major transit systems would be required to tender a minor but still significant portion (e.g. up to 20%) of their routes. Even though there has yet to be substantial action on this policy, the move has drawn significant objections from unions and even caused minor labour disruptions.

**Commuter rail.** Due to the specialized nature of heavy rail operations, Canada's three commuter rail services (West Coast Express in the Vancouver area, GO Transit in the Toronto area, and the Agence métropolitaine de Montreal) are all operated and maintained through contracts with private companies.

**Specialized transit.** While most of Canada's larger cities deliver specialized services for persons with disabilities either internally or through non-profit partners, some contract them out to the private sector. The Greater Vancouver Transportation Authority includes two private contractors along with several non-profit partners in delivering its HandyDART service. Regina's Paratransit Service is also contracted to a private operator, as are Ontario systems in Ottawa, London and York Region.



*The operation of Ottawa's ParaTranspo is contracted out to a private company (Source: City of Ottawa/OC Transpo)*

## Public-private partnerships for rapid transit development

In theory, public-private partnerships offer several benefits to municipalities: they can reduce costs, open up new funding sources, implement projects faster by taking processes out of the public realm, and transfer risk to the private sector. Internationally, public-private partnerships have proven effective for some major infrastructure projects. However, partnerships for public transit services have been less successful — several high-profile transit projects in Australia (a leader in the field) have been plagued by commercial difficulties.

Canada's federal government and many provincial governments support and promote the use of public-private partnerships to deliver major infrastructure projects. In late 2004, the Province of Quebec even passed Bill 61, which created a new agency to promote, oversee and assist with the creation of public-private partnerships. The *Agence des partenariats public-privé du Québec* will be involved in any major infrastructure, equipment or public service project that relies mainly on public funding and that is considered eligible for delivery through a public-private partnership.

In the last few years, several public-private partnerships have been launched to develop new rapid transit facilities and services in major Canadian cities, as summarized in the following paragraphs.

### **Richmond–Airport–Vancouver (RAV) Rapid Transit Project, Greater Vancouver Transportation Authority.**

The RAV line is being developed through a multi-agency partnership with private-sector involvement. A multi-stage process of competition and negotiation will ultimately lead to a 35-year contract with a private consortium to design, build, partially finance, operate and maintain the RAV line. The private partner will assume risks associated with the line's construction, schedule and maintenance, while TransLink will own the line and control fares and service levels. The automated light rail project is slated to begin operation in 2009 (see [www.ravrapidtransit.com](http://www.ravrapidtransit.com) for more information).

**VIVA bus rapid transit system, York Region.** In 2002, York Region signed an agreement with a private consortium to design, build, operate and maintain a new bus rapid transit network. Since that time, decisions have been made to assign the fleet acquisition, operation and maintenance functions to third-party contractors. York Region will determine service and fare levels, and will retain ownership of vehicles and terminals (see [www.vivayork.com](http://www.vivayork.com) for more information).

**Union Station–Pearson International Airport rail link, Greater Toronto Area.** In 2003, a group of stakeholders led by Transport Canada selected a private-sector partner to develop a new rail link between Pearson International Airport and Union Station (a downtown transportation hub connecting the Toronto Transit Commission’s subway, GO Transit’s commuter rail lines, and VIA Rail’s intercity service) through a design-build-finance-operate-maintain arrangement. The new “Blue22” service will link to and complement Toronto Transit Commission and GO Transit services, but will otherwise be independent in its operation and fares (about \$20 for a one-way trip). It is expected to be running by 2008 to 2010. Public investment in the project will focus on rehabilitating and upgrading track and terminal infrastructure, while areas of private investment will include rail cars and a new 3.2-km rail spur into Pearson International Airport.

**O-Train extension, City of Ottawa.** The City of Ottawa is developing a strategy to forge a public-private partnership for a new light-rail line from the city’s downtown to its southern suburbs, as an extension of its current O-Train pilot project. This arrangement would include at least the project’s design and construction components, and may be extended to also involve operation and/or maintenance work.

## **Other areas of private sector involvement**

While the aspects of private sector participation in public transit discussed thus far have focused on the development and operation of bus or rail services, they in fact extend well beyond. Transit systems work with private contractors to enhance or deliver many other aspects of their operation including customer information, passenger shelters, advertising management, facility management, fleet maintenance, and advanced technologies for monitoring and improving operations.

The Société de transport de Montréal (STM) has taken a unique approach to strengthening its ability to partner with the private sector in areas like these. In 2004 the STM created Transgesco, a subsidiary company that will focus on building new public-private partnerships. It has already reached agreements with partners whose projects (a television-based information system, and enhanced commercial leasing space in subway stations) will represent millions of dollars invested in the STM’s network for the benefit of riders. Areas of future partnership work include wireless communications and the implementation of a smart card-based fare system, which is scheduled for introduction in 2006.