## Benefits Small-Urban, Rural Providers

# Consolidated Procurement Can Lower New Vehicle Costs

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Larger transit systems tend to have an advantage when acquiring capital equipment, as the efficiencies of scale often result in generally lower equipment pricing. Traditionally, small-urban and rural transit providers have been denied the chance to participate in these benefits and processes.

Recently, however, a group of small-urban and rural operators formed a consortium that successfully achieved the pricing and financing benefits made available through efficiencies of scale. The consolidated procurement of more than 100 vehicles by the Berks Area Reading Transportation Authority and 11 other transit operators located throughout Pennsylvania demonstrates a different approach to vehicle procurements for small properties, which provides a less expensive, more efficient process.

This transaction may serve as a model for operators that need to replace vehicles without having adequate financial and operational resources.

### Background

The participating operators in the Pennsylvania transaction provide transit service to an area exceeding 4,000 square miles, serving approximately two million residents with fleets ranging in size from two to 80 vehicles.

By 1991, several of the agencies were operating buses with service lives exceeding 18 years. Individually, the agencies had few financial resources to address their replacement needs in the near term. Furthermore, the administrative burden associated with the standard procurement process, including plant inspections, was too costly for some operators to proceed with individual acquisitions.

However, in 1992, BARTA approached the other 11 operators with a proposal to present the procurements as a single purchase, with a single specification for all operators.

### The Procurement Process

In lieu of individual bid solicitations, the consortium packaged its requirements into a single procurement of 102 vehicles, along with associated support equipment such as radios and fare collection equipment.

The 12 operators were required to give up some individual autonomy in the design of their vehicles. It was agreed that all individual agency requirements would be consolidated into four vehicle classes (40-foot, 35-foot, 30-foot, and less than 30-foot), each of which would have one basic design specification.

### Funding Process

The consortium also attempted to develop a payment strategy for the equipment, using financial processes usually available only to much larger agencies.

The group approached the Federal Transit Administration and requested that a consolidated grant be approved to assist in the procurement. Due to the novelty of the transaction, the FTA's Budget and Policy office, in conjunction with Region 3 personnel, began to assist the group in developing a multi-year grant agreement for the transaction, which involved grants of approximately $20 million.

Since federal program funds during the early years of the transaction had been fully appropriated to other projects, the cash needed to meet equipment delivery schedules on this transaction necessitated some level of borrowings from the private sector. Under guidelines set by the Intermodal Surface Transportation Efficiency Act of 1991, the cost of the debt service would be considered as eligible expense under FTA grant contracts to be received throughout the repayment term of the borrowing.

Furthermore, to minimize the level of private sector borrowings, the FTA suggested that all local matching funds be expended in the early stages of the project, prior to borrowing. All remaining funds required for the purchase would be borrowed and all related debt service would be reimbursed from federal funds, in accordance with relevant agreements and regulations.

A modified, abbreviated federal full funding agreement was requested and approved to cover the debt service costs during the FTA authorization period. In addition, using the "contingent commitment" authority provided under Section 3 of ISTEA, the FTA administrator provided the consortium with a level of federal government support for the program that would extend past the FTA's authorization period. This support, which does not guarantee any future grants during that period, was helpful in presenting the transaction to financing institutions for the purpose of obtaining loans collateralized, in part, by the federal support for the project.

As expected, the offers received on the solicitation reflected a significant cost savings due to efficiencies of scale created by the transaction. Local funding was used to cover the purchase costs of the small vehicles and ancillary equipment, such as radios. The remaining fund requirements of approximately $12 million were obtained through a loan from a local bank, with payments scheduled over an eight-year period at a very reasonable interest rate.

In conclusion, it can be seen that the Pennsylvania procurement consortium project shows the benefits of the successful application of many aspects of the federal transit program encouraged under ISTEA. The consolidation of many small requirements into one large procurement has successfully achieved its desired goals—pricing discounts and private sector financial support for agencies.

This project also demonstrates the ability of all levels of transit providers to obtain financial benefits that can be derived through alternative financing mechanisms.

It should be noted that FTA views each such transaction on its own merits. However, many observers feel the use of such mechanisms should be carefully considered by transit operators as a means of achieving financial and operating efficiencies in the procurement of capital equipment.