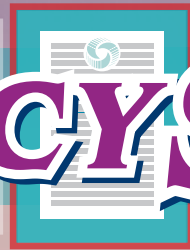




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## **Inter-city Busing**

**A New Regulatory  
Framework for Canada**

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**Steve Lafleur**

## About the author



**Steve Lafleur** is a public policy analyst for the Frontier Centre, currently based out of Winnipeg, Manitoba. He recently graduated with a Master of Arts Degree in Political Science from Wilfrid Laurier University, and is a former Research Associate at the Cascade Policy Institute in Portland, Oregon. He is currently a Contributing Editor for NewGeography.com, where he writes about a variety of public policy issues relating to North American cities. His works have appeared in such publications as *The Oregonian*, *The National Post*, *The Boston Globe*, *The Milwaukee Journal-Sentinel*, and *Reason Magazine*.



**FRONTIER CENTRE**  
FOR PUBLIC POLICY

MB: 203-2727 Portage Avenue,  
Winnipeg, Manitoba Canada R3J 0R2  
Tel: 204-957-1567

SK: 2353 McIntyre Street,  
Regina, Saskatchewan Canada S4P 2S3  
Tel: 306-352-2915

AB: Ste. 1280-300, 5th Avenue SW  
Calgary, Alberta Canada T2P 3C4  
Tel: 403-995-9916

[www.fcpp.org](http://www.fcpp.org)

Email: [newideas@fcpp.org](mailto:newideas@fcpp.org)

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*Ideas for a better tomorrow*

# **Inter-city Busing**

## **A New Regulatory Framework for Canada**

**Steve Lafleur**

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Note to reader: Some words in this document may appear in [blue](#) and are underlined, including endnotes. Clicking on these words will direct the reader to relevant online websites or documents using your associated web-browser. Clicking on any endnote numeral will directly go to the appropriate reference at the end of this document, with a return link to its preceding page point.

# Executive Summary

Canada's inter-city bus industry is in flux. Rural service levels have declined over the last few decades, and provinces are exploring various ways to maintain rural routes. Meanwhile, curbside inter-city busing is beginning to take hold in the Niagara Falls-Montreal corridor. While rural inter-city bus demand is decreasing, the urban inter-city bus market appears primed for growth. However, many provinces have relied upon on a system of cross-subsidies whereby Greyhound is required to provide service to unprofitable rural routes in exchange for exclusive access to profitable urban routes. This effectively subsidizes low-income rural riders by charging higher fees to low-income urban riders. However, this model is breaking down. In the last few years, Greyhound has demanded subsidization to continue some of these routes, but it is now being allowed to exit certain markets instead. This creates an opportunity for provinces to design better models for providing service to underserved rural areas. Fortunately, some U.S. states have provided examples that the provinces can build upon.

Inter-city bus ridership in the United States has increased dramatically since 2002. This growth is almost entirely due to curbside buses that travel from downtown to downtown between major cities, picking up customers at designated roadside stops (as opposed to at stations). While rural ridership levels continue to dwindle throughout the country, states such as Washington State have found ways to maintain socially necessary routes at a reasonable cost. Washington State's model would be appropriate for Manitoba, Saskatchewan and the Maritime provinces, which are in need of affordable rural service.

Below are the recommendations of the report:

- Provinces should deregulate prices and schedules for inter-city buses.
- Provinces should require no more than 90 days notice from carriers for route abandonment or service interruptions.
- If provinces choose to have any entry restrictions, they should at most have a reverse onus clause whereby the only way to prevent new carriers from entering a market is by demonstrating that it would be detrimental to the public interest.
- Socially necessary routes that carriers refuse to serve at market rates should be tendered out on a competitive basis.
- The ideal method for tendering would be a reverse auction system, whereby carriers bid downwards on the required subsidy level until the lowest acceptable bid is submitted.

# Introduction

The inter-city bus industry in the United States has grown dramatically since 2007. It had been in steady decline since the 60s, as automobile ownership increased and airline deregulation made airfare affordable to the middle class. More recently, however, a combination of competition and technology has allowed the rapid expansion of discount inter-city buses that are increasingly attracting young professionals who would not typically have ridden them. The number of daily inter-city bus departures has been increasing by roughly 7 per cent since 2007, making it the fastest-growing mode of transportation in the United States.<sup>1</sup> There is good reason to believe that the same trend will occur in Canada—if governments let it.

When discussing regulatory policy, the term “deregulation” tends to dominate the discussion. Unfortunately, the term is often used in a vague, misleading way. In transportation policy, “deregulation” tends to refer to eliminating the regulation of fares, schedules, routes and tertiary services (meals, bundling deals, etc.). Opponents of liberalizing transportation policy often use the term “deregulation” to imply that all regulations, including safety regulations, would be eliminated. This is something that few supporters of liberalization would actually support. Since the term is inescapable, the word “deregulation” should be used as defined by transportation policy.

The Canadian inter-city bus industry is in flux. Since 2009, Greyhound has sought subsidies to continue providing service to uneconomical routes. The government of Alberta subsequently deregulated the industry, and the government of Manitoba is allowing Greyhound to reduce rural service. The only carrier servicing New Brunswick, Nova Scotia and PEI is ceasing operations in those provinces.<sup>2</sup> The Ontario government has decided to abandon Ontario Northland, a money-losing Crown corporation that provided bus, train and telecommunication service in Northern Ontario.<sup>3</sup> Saskatchewan, meanwhile, stands out as the one jurisdiction that is increasing subsidies to inter-city busing.<sup>4</sup>

There appears to be a consensus in Canada (outside of Quebec and Saskatchewan) that reducing the level of regulation is the appropriate path for the industry.<sup>5</sup> According to all available research from governments, academe, think-tanks and industry groups, good reasons exist for that consensus. Deregulation will lead to cheaper, more convenient and better quality bus service between urban areas.

While liberalization would bring cheaper, better bus service to urban residents, there is a legitimate concern that service would decline in many remote or rural areas under a deregulated system. This has been the U.S. experience. Of course, it has also occurred under the highly regulated Canadian system.<sup>6</sup> The traditional approach has been to mandate that Greyhound provide service to money-losing routes in exchange for a virtual monopoly on service. This cross-subsidization model relied on riders paying higher fares on profitable routes in order to keep fares lower on unprofitable routes, but Greyhound has abandoned many rural routes as rural populations have declined and automobile ownership has increased. There is reason to believe that deregulation combined with targeted subsidies would stabilize or increase rural service. The virtue of a deregulated system is that it allows companies to experiment with various business models that could make previously uneconomic routes viable. Moving away from cross-subsidization and toward direct subsidies for specific routes would also end the practice of requiring low-income urban riders to subsidize rural riders.

# The history of inter-city busing in Canada (minus Saskatchewan)

The history of inter-city busing in Canada is intertwined with the history of Greyhound Canada. While it is far from the only bus company to have operated in Canada, it provides the overwhelming majority of service. Canada has 1,500 bus companies, but Greyhound is the only countrywide carrier (when its interline partners are included).<sup>7</sup> Canadian Greyhound Coaches Ltd. incorporated in 1929<sup>8</sup> with a fleet of four buses. In 1940, the Greyhound Corporation bought it and named it Western Canadian Greyhound Lines Ltd. In 1948, Western Canadian purchased a majority interest in rival Motor Coach Industries and gained full ownership in 1958. In 1957, the company united with Eastern Canadian Greyhound subsidiaries, creating the first coast-to-coast inter-city bus company in Canada. Following the opening of the Trans-Canada Highway, Greyhound commenced operations between Vancouver and Toronto in 1962. Between 1970 and 1998, Greyhound purchased a number of regional carriers. Greyhound is the only major inter-city bus carrier in Canada outside of Saskatchewan, operating 92 routes with 1,380 service points.<sup>9</sup> Smaller carriers provide service in Quebec and the Maritimes, but Greyhound allows interline sales (tickets from destinations they serve to destinations they do not by collaborating with local carriers).

In 1992, Greyhound introduced what went on to be one of its most successful innovations: the use of pup trailers to ship parcels via Greyhound Courier Express. Profits from parcel service have helped to subsidize passenger service, particularly in Western Canada.

The industry has struggled with declining ridership, and carriers have recently begun to demand subsidies for unprofitable rural routes. Unfortunately, accurate ridership numbers for inter-city bus service in Canada are not available. According to the Canadian Bus Association (CBA), “[t]here is no comprehensive source for statistical data on overall activity within the intercity bus industry. Because of inconsistent industry engagement, reports issued by Statistics Canada on the sector are acknowledged to be incomplete.”<sup>10</sup> Despite its dominant position, Greyhound lost \$13.4-million in 2009. Losses are not unique to Greyhound. Only 38 per cent of scheduled inter-city bus routes in Canada are profitable.<sup>11</sup>

The other recent development is the entry of Megabus into the Niagara Falls-Toronto-Montreal corridor where it services nine stops. It also has stops in Buffalo and at the Buffalo Airport. This has led to substantially lower prices on the routes the company serves and bodes well for the future of the industry in Canada.



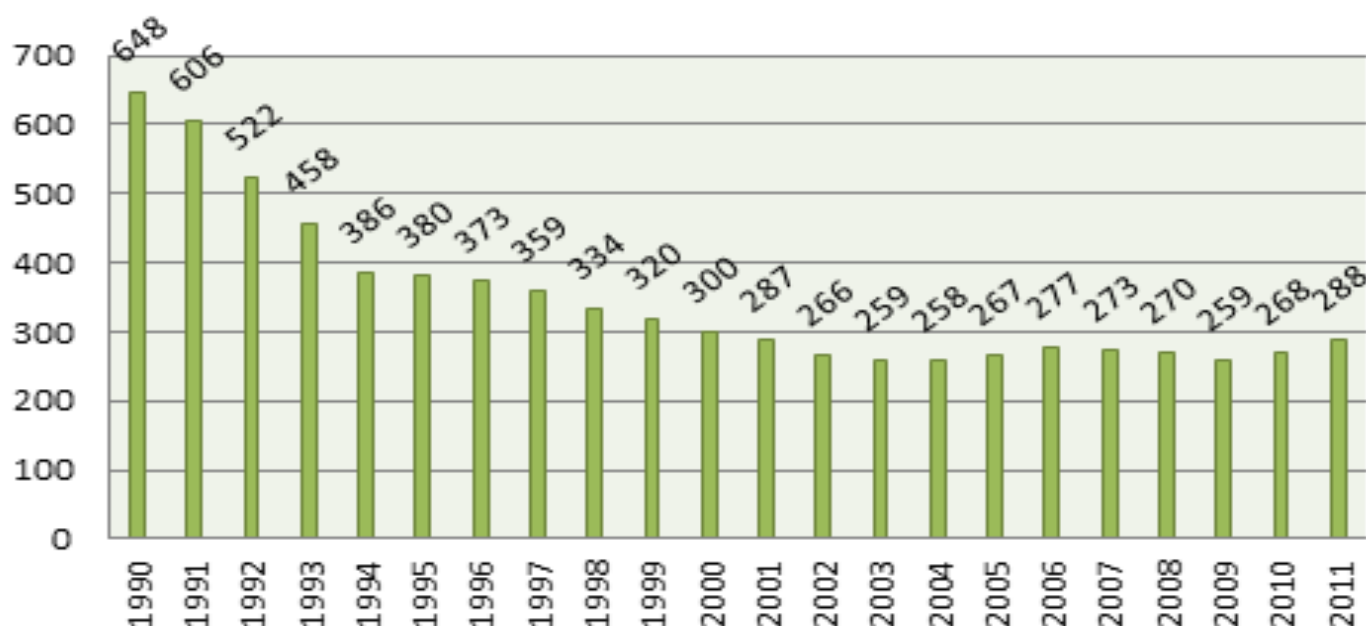
**Figure 1:**  
**Megabus Canada Service Map**  
**(From the Megabus website)**

# The history of inter-city busing in Saskatchewan

The Saskatchewan Transportation Company (STC) incorporated in 1946 to provide service between destinations within Saskatchewan. It is a Crown corporation and has a monopoly on service within the province. Greyhound is allowed to provide service between points in Saskatchewan and other provinces. Given the robust demand for inter-city busing and the relatively high cost of automobiles and air travel, STC was able to operate on a cross-subsidy model that did not require subsidies from general revenue. Ridership began to decline during the 1980s and began to fall precipitously in the 1990s. It fell from 648,000 rides in 1990 to 300,000 rides in 2000.<sup>12</sup> Ridership has since marginally decreased.

**TABLE 1**

**STC Annual Ridership (000s)**



STC officials argue that ridership is recovering; there was a 3.8 per cent increase in 2010 and a 7.4 per cent increase in 2011. However, one should note that these increases were due to steeply discounted fares that led to a need for higher provincial operating subsidies. In 2011, STC required an \$8.7-million operating subsidy as well as a \$2-million capital grant.<sup>14</sup> These figures were up from \$8.4-million in operating grants and \$900,000 in capital grants in 2010. The total subsidy was \$3.65-million in 2000.<sup>15</sup> The declining rural population is exacerbating the trend toward increased subsidies. STC operates 29 routes, and only the routes linking Prince Albert, Saskatoon and Regina cover their costs.<sup>16</sup> STC lost \$2.44 for every passenger mile provided in 2011, up from \$2.29 in 2010 and \$2.22 in 2009.<sup>17</sup>

With a population similar to Manitoba's, STC operated at a loss of nearly twice the loss Greyhound experienced in Manitoba in 2010, while serving roughly the same number of communities and providing fewer operating miles. This suggests that STC runs a much less efficient operation than Greyhound does.

In 2002, the Deputy Chairman of the Standing Committee on Transport and Communications asked STC officials during a hearing on inter-city bus services whether STC considered replacing the cross-

**TABLE 2**

## Inter-city Bus Service in Saskatchewan and Manitoba

	Manitoba	Saskatchewan
Population <sup>18</sup>	1,235,412	1,045,622
Communities Served	293 <sup>19</sup>	290 <sup>20</sup>
2010 Operating Miles	3.6 <sup>21</sup>	3.2 <sup>22</sup>
2010 Operating Loss (millions)	\$4.8 <sup>23</sup>	\$8.4 <sup>24</sup>

subsidy model with a system of competitive tendering for unprofitable rural routes. The assistant deputy minister for Saskatchewan Highways and Transportation admitted to not having considered this option and declined to comment before weighing the advantages.<sup>25</sup>

## Provincial inter-city bus markets other than Saskatchewan<sup>26</sup>

Each province has its own distinct regulatory environment, so each will need to be described separately. We will go from west to east.

The inter-city bus industry in British Columbia has historically run on a cross-subsidy model where Greyhound is expected to service unprofitable routes. However, this is not a factor in the consideration of new applications. New applications are evaluated purely on the basis of public need, applicant fitness and promoting sound economic conditions. It puts the onus on applicants to prove that their service is necessary. British Columbia does not regulate fares or schedules. However, the public-need test puts the onus on new carriers to prove that their service is needed, which is a significant barrier to entry in to markets currently served by Greyhound.

Alberta began the process of deregulating inter-city buses in 2011. This enabled Greyhound to discontinue 12 money-losing rural and northern routes. While there is legitimate concern over service to these communities, smaller players are emerging to pick up the slack. In March 2012, six carriers launched AlbertaBus.com, which serves nearly 50 communities that Greyhound abandoned.<sup>27</sup> This partnership allows the companies to share an online booking service and a toll-free reservation number. They can also pool marketing resources. This model holds promise for Alberta as well as other provinces that undertake deregulation. One partner, Red Arrow, provides inter-urban bus service on a slightly different model than any other Canadian coach line. Tickets are more expensive than Greyhound's, but they offer a better experience than do the big players in the North American industry, including Megabus or Bolt Bus. Red Arrow seats are made of leather and have 30 per cent more legroom than standard coach seats. Red Arrow has onboard movies, satellite radio, Wi-Fi, power outlets, complimentary snacks and refreshments, and single row seating is available. Its service targets non-traditional bus riders to a greater extent than the rest of the curbside industry does. This business model is a complement to the rest of the industry, which is primarily marketed to low-income riders (non-curbside) and young professionals (curbside). Red Arrow primarily carries business passengers, which puts it in a class of its own in the industry.<sup>28</sup> At the moment, Red Arrow services Calgary, Edmonton, Red Deer, Lethbridge and Fort McMurray.

Manitoba has operated on a cross-subsidization model in which Greyhound is the predominant carrier. The provincial government regulates fares and schedules. The market is in flux. In 2009, Greyhound negotiated a subsidy to cover operating losses that totalled \$8.4-million between 2009 and 2011.<sup>29</sup> These subsidies are discontinued. Greyhound has signalled that it will discontinue 12



routes.<sup>30</sup> The province recently amended its regulatory framework in order to allow new carriers to enter the market, subject to safety and insurance requirements.<sup>31</sup> They will also need to file their proposed schedules and fares with the Motor Transport Board. Carriers will be free to set their routes, schedules and service levels, though they will still be required to give the board notice for scheduling and fare changes. Several operators have signalled interest in serving the abandoned routes, though it remains to be seen what will happen under the new regulatory framework.<sup>32</sup>

Ontario requires advance notice of schedule reductions or discontinuances but does not require the approval of a regulating board. Schedules and fares are not regulated. The entry criteria for applicants are public necessity and convenience. Greyhound had served Ontario on a cross-subsidy basis, but the provincial government recently refused to give Greyhound subsidies to continue its northern service. Additionally, the province is preparing to divest itself of Ontario Northland Transportation Company, a Crown corporation that has amassed staggering losses over the years.<sup>33</sup> The provincial bus market is very much in transition. GO Transit, a provincial Crown corporation that operates in southern Ontario, has been expanding its bus and rail service to the detriment of private inter-city carriers. Nevertheless, Megabus recently introduced nine stops in the Niagara-Toronto-Montreal corridor. Megabus provides service that links Toronto with several North-eastern U.S. cities including New York, Buffalo and Washington, D.C.

Quebec has the most highly regulated private sector inter-city bus industry in the country. Its government is the only provincial government outside of Saskatchewan that explicitly opposes deregulation. Several small companies including Orléans Express, Intercar and Transdev Limocar provide bus service within Quebec.<sup>34</sup> Greyhound does not provide point-to-point service within Quebec, but it provides interline service with the smaller carriers.<sup>35</sup>

Newfoundland essentially has two inter-city bus systems. Carriers that operate within a 10-kilometre zone along the Trans-Canada Highway operate under a reverse onus system whereby carriers are free to enter the market unless opponents can show a detriment to the public interest. These carriers can adjust fares and schedules at their discretion. Outside of this zone, carriers cannot adjust fares or schedules without prior approval.

New Brunswick considerably liberalized entry into the inter-city bus industry in 1988. The province moved from a public convenience and necessity test to a reverse onus test. Applicants must convince the New Brunswick Energy and Utilities Board that they will not go bankrupt within six months and that they have insurance. The Board must approve fare and scheduling changes. The only carrier serving New Brunswick, Nova Scotia and PEI, Acadian Coach Lines, is planning to discontinue service to all three provinces in November 2012.<sup>36</sup> Acadian's parent company has lost close to \$12-million on these routes since acquiring Acadian in 2004.<sup>37</sup> However, a PEI-based tour bus company has plans to take over many of the routes. The company intends to serve 80 per cent of current routes with brand-new coaches and to join with van and shuttle companies to service the remainder of the current routes.<sup>38</sup> Nova Scotia company Ambassatours has also expressed interest in taking over some routes.<sup>39</sup>

The inter-city bus industry in Nova Scotia operates under a cross-subsidization model that is administered by the quasi-judicial Utility and Review Board. It relies upon a public convenience and necessity test for applicants. Fare and schedule changes require board approval. Nova Scotia has one of the most heavily regulated inter-city bus markets in the country.

Prince Edward Island claims to have deregulated its inter-city bus market. The government does not issue operating licences to carriers. However, providers cannot change prices or schedules without prior government approval. The government also provides some financial support to a bus service operating between the provinces two largest cities, Charlottetown and Summerside.

# Price comparison of major Canadian routes

Prices are similar on a per-kilometre basis across Canada. However, two regions are outliers. The first is Saskatchewan. STC has the three most-expensive routes in the country. This is unsurprising, given that it is a government monopoly. The other outlier is the Niagara-Montreal corridor. Prices have decreased significantly, as Megabus entered the market and began expanding the number of routes.

In order to quantify the differences in pricing between Canadian routes, Frontier Centre researchers gathered price data for major Canadian routes on June 6, 2012. This included prices for tickets booked one, seven and 31 days in advance. These prices were converted into per-kilometre prices for comparability.

**TABLE 3**

## Price per Kilometre for Major Canadian Routes, One-day Advance Purchase

Depart	Arrive	Price/km	Depart	Arrive	Price/km
Edmonton	Lloydminster	\$ 0.195	Calgary	Red Deer	\$ 0.122
Saskatoon	Prince Albert	\$ 0.179	Calgary	Lethbridge	\$ 0.122
Ottawa	Kingston	\$ 0.168	Sudbury	Toronto	\$ 0.121
Regina	Saskatoon	\$ 0.164	Toronto	Windsor	\$ 0.121
Regina	Prince Albert	\$ 0.162	Saskatoon	Edmonton	\$ 0.120
Vancouver	Kelowna	\$ 0.160	Ottawa	Montreal	\$ 0.120
Winnipeg	Regina	\$ 0.158	Edmonton	Red Deer	\$ 0.115
Vancouver	Kamloops	\$ 0.158	Toronto	Kitchener	\$ 0.112
Sault Ste. Marie	Sudbury	\$ 0.155	Saskatoon	Calgary	\$ 0.109
Winnipeg	Saskatoon	\$ 0.145	Toronto	Ottawa	\$ 0.105
Regina	Edmonton	\$ 0.143	Toronto	Niagara Falls	\$ 0.098
Winnipeg	Brandon	\$ 0.142	Calgary	Edmonton	\$ 0.094
Ottawa	Sudbury	\$ 0.136	Regina	Calgary	\$ 0.091
Thunder Bay	Sault Ste. Marie	\$ 0.134	Calgary	Vancouver	\$ 0.089
Winnipeg	Thunder Bay	\$ 0.129	Toronto	Kingston	\$ 0.035
Toronto	London	\$ 0.126	Montreal	Kingston	\$ 0.031
Sudbury	Thunder Bay	\$ 0.125	Toronto	Montreal	\$ 0.018

\*Green = STC; Black = Greyhound; Blue = Megabus

**TABLE 4**
**Price per Kilometre for Major Canadian Routes, Seven-day Advance Purchase**

Depart	Arrive	Price/km	Depart	Arrive	Price/km
Saskatoon	Prince Albert	\$ 0.179	Saskatoon	Edmonton	\$ 0.116
Ottawa	Kingston	\$ 0.168	Calgary	Red Deer	\$ 0.116
Regina	Saskatoon	\$ 0.164	Toronto	London	\$ 0.115
Regina	Prince Albert	\$ 0.162	Sudbury	Toronto	\$ 0.113
Edmonton	Lloydminster	\$ 0.161	Calgary	Lethbridge	\$ 0.113
Winnipeg	Regina	\$ 0.156	Edmonton	Red Deer	\$ 0.108
Sault Ste. Marie	Sudbury	\$ 0.155	Ottawa	Montreal	\$ 0.105
Vancouver	Kelowna	\$ 0.155	Saskatoon	Calgary	\$ 0.105
Winnipeg	Saskatoon	\$ 0.145	Toronto	Kitchener	\$ 0.093
Vancouver	Kamloops	\$ 0.144	Calgary	Edmonton	\$ 0.091
Regina	Edmonton	\$ 0.142	Toronto	Ottawa	\$ 0.087
Winnipeg	Brandon	\$ 0.142	Regina	Calgary	\$ 0.087
Ottawa	Sudbury	\$ 0.136	Calgary	Vancouver	\$ 0.086
Thunder Bay	Sault Ste. Marie	\$ 0.134	Toronto	Kingston	\$ 0.062
Winnipeg	Thunder Bay	\$ 0.129	Montreal	Kingston	\$ 0.055
Sudbury	Thunder Bay	\$ 0.125	Toronto	Montreal	\$ 0.031
Toronto	Windsor	\$ 0.118	Toronto	Niagara Falls	\$ 0.008

\*Green = STC; Black = Greyhound; Blue = Megabus

**TABLE 5**
**Price per Kilometre for Major Canadian Routes, 31-day Advance Purchase**

Depart	Arrive	Price/km	Depart	Arrive	Price/km
Saskatoon	Prince Albert	\$ 0.179	Calgary	Red Deer	\$ 0.116
Regina	Saskatoon	\$ 0.164	Toronto	London	\$ 0.115
Regina	Prince Albert	\$ 0.162	Sudbury	Toronto	\$ 0.113
Ottawa	Kingston	\$ 0.155	Calgary	Lethbridge	\$ 0.113
Sault Ste. Marie	Sudbury	\$ 0.155	Edmonton	Red Deer	\$ 0.108
Edmonton	Lloydminster	\$ 0.145	Ottawa	Montreal	\$ 0.105
Vancouver	Kelowna	\$ 0.140	Saskatoon	Edmonton	\$ 0.105
Winnipeg	Regina	\$ 0.138	Saskatoon	Calgary	\$ 0.095
Winnipeg	Brandon	\$ 0.136	Toronto	Kitchener	\$ 0.093
Thunder Bay	Sault Ste. Marie	\$ 0.134	Calgary	Edmonton	\$ 0.091
Ottawa	Sudbury	\$ 0.132	Toronto	Ottawa	\$ 0.087
Winnipeg	Saskatoon	\$ 0.128	Regina	Calgary	\$ 0.079
Vancouver	Kamloops	\$ 0.127	Calgary	Vancouver	\$ 0.077
Regina	Edmonton	\$ 0.127	Toronto	Kingston	\$ 0.073
Sudbury	Thunder Bay	\$ 0.125	Toronto	Montreal	\$ 0.037
Winnipeg	Thunder Bay	\$ 0.120	Toronto	Niagara Falls	\$ 0.008
Toronto	Windsor	\$ 0.118	Montreal	Kingston	\$ 0.003

\*Green = STC; Black = Greyhound; Blue = Megabus

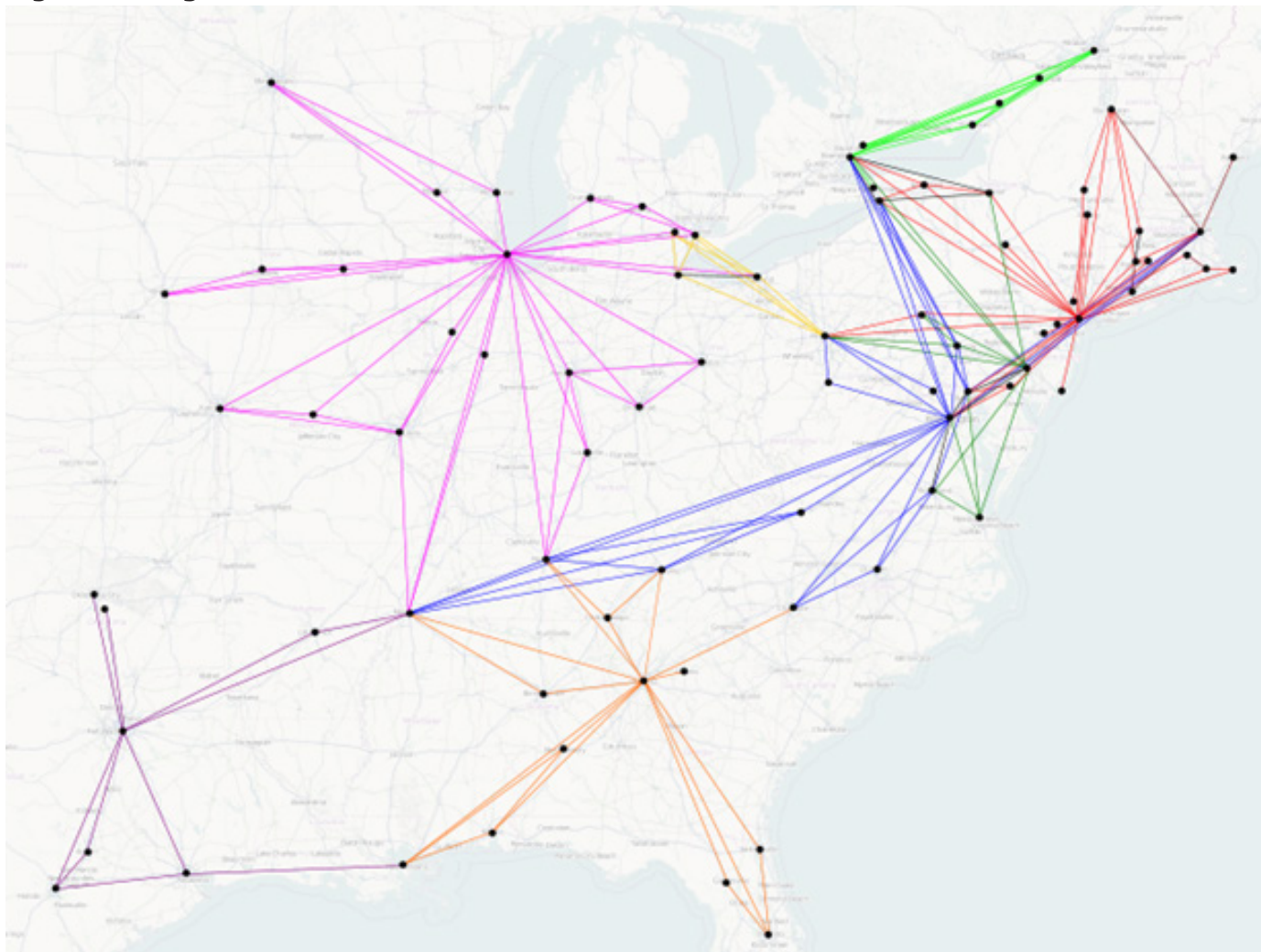
Two unsurprising trends emerge: high prices for STC routes and low prices for Megabus routes. For one-day advance purchases, the four STC routes surveyed were the second, fourth and fifth most expensive of 34 routes. STC fared slightly worse with seven-day advance purchases, coming in first, third and fourth. STC's performance was even worse on 31-day advance purchases, taking the top three spots, which is consistent with a previous Frontier survey.<sup>40</sup> The reason STC fares worse with advance purchases is that, unlike Greyhound or Megabus, it has no discounts for them.

Megabus is at the other end of the spectrum from STC. Its fares are extremely flexible, even varying by time of day in some cases. Unsurprisingly, their fares are lower. For one-day advance purchases, the three cheapest routes were Megabus routes, and a fourth Megabus route came in at seventh cheapest. For both seven- and 31-day advance purchases, Megabus had the four cheapest routes (though their order varied).

# The U.S. inter-city bus industry

The U.S. inter-city bus service began a precipitous decline in the 1960s. As automobile ownership expanded, bus ridership fell. In 1982, the federal government deregulated inter-city bus service.<sup>41</sup> That this deregulation did not turn the industry around can be partially explained by the airline deregulation that occurred at the same time. Air travel is often more convenient, and affordable flights meant lower bus ridership. The industry lost two-thirds of its ridership between 1960 and 2002.<sup>42</sup> However, by 2007 things began to turn around. The number of departures increased 6.9 per cent between 2006 and 2007.<sup>43</sup> It was the first time ridership increased in 40 years.<sup>44</sup> This was followed by increases of 9.8 per cent in 2008, 5.1 per cent in 2009, 6 per cent in 2010 and 7.1 per cent in 2011.<sup>45</sup> The increase has been driven by the expansion of curbside buses (rising gas prices were likely a factor). The Internet and smart phones have made it simple and convenient to book curbside buses, eliminating the need for brick and mortar ticket offices. The curbside sector's annual growth was pegged at roughly 33 per cent in a 2010 study, which was roughly corroborated by the 32.1 per cent expansion in 2011.<sup>46</sup> The curbside model, pioneered by so-called Chinatown buses from Manhattan to Boston and Washington, has expanded dramatically. Megabus and Bolt Bus have begun to offer discount bus service, enticing customers with tickets as low as \$1 between cities. They provide (admittedly spotty) wireless Internet service as well as power outlets. Many young professionals who historically would not have considered inter-city buses began to use curbside

**Figure 2: Megabus North American Service**



service, because the price is very low compared with other transportation modes. They are able to use their electronic devices while sitting in relatively comfortable seats and travelling directly from downtown to downtown (as opposed to having to use airports or bus terminals outside of downtown).<sup>47</sup> Megabus, the dominant player in the curbside industry, began in the Northeast United States, spread to the Midwest and recently expanded into the South, with Atlanta as its primary hub.

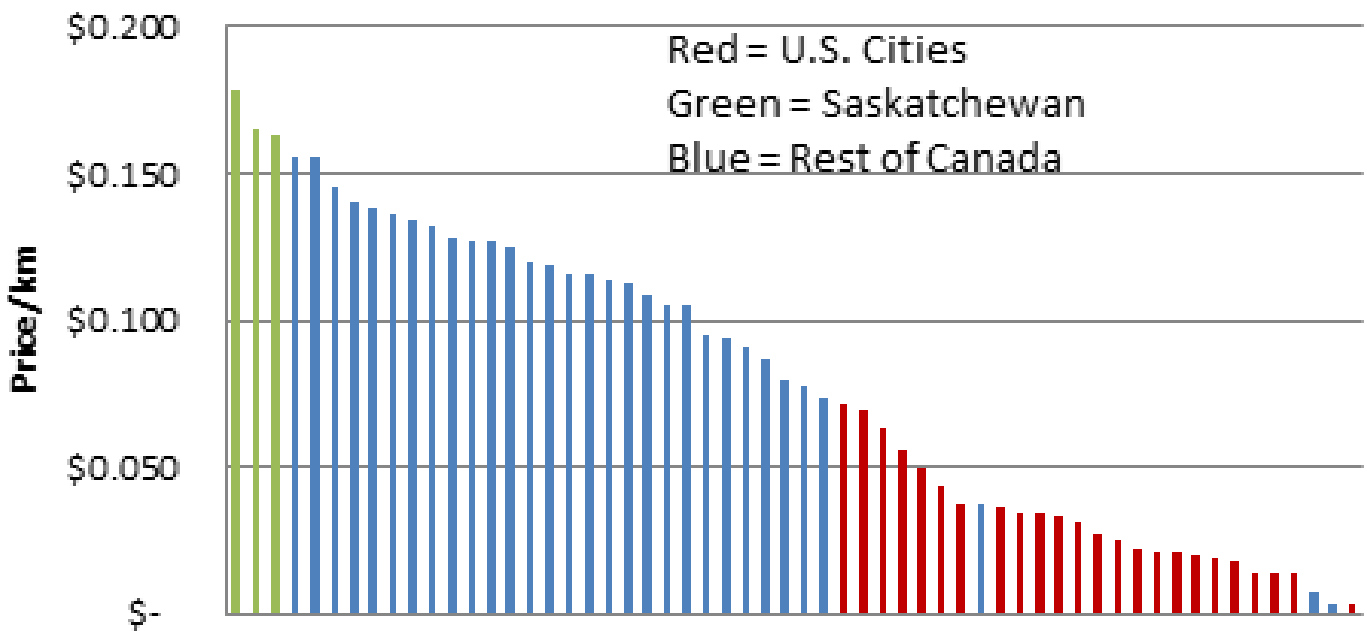
Curbside buses are by far the fastest-growing inter-city transportation mode in the United States. Passenger ridership increased by 30 per cent between 2010 and 2011.<sup>48</sup> Ridership expanded 5.2 per cent for Amtrak and 1.8 per cent for airlines and contracted 1 per cent for personal automobiles.<sup>49</sup> Joseph Schwieterman, the foremost expert on the inter-city bus industry, has gone so far as to claim that a renaissance in inter-city busing is underway.<sup>50</sup> He credits the widespread usage of smart phones for much of the increase.<sup>51</sup> It is most notable that while curbside busing is often thought of as an East Coast phenomenon, because so many large cities are within driving distance of one another, it has expanded dramatically in the Midwest and is making inroads in the Southeast, the Pacific Northwest and California. Megabus's recent expansion into Texas, Nevada, and California represents a substantial gain for the curbside industry.

The U.S. inter-city bus industry also faces challenges related to rural routes. The industry was largely deregulated in 1982. The number of communities served declined from 20,000 in 1950 to under 5,000 by 2000.<sup>52</sup> However, inter-city bus service began to decline well before 1982. Scheduled departures nationwide decreased 30.9 per cent between 1960 and 1980.<sup>53</sup> Many of the same factors are at play in Canada: urbanization, increased automobile ownership and lower costs (and subsidies) for competing modes of transportation. Many states have introduced some form of subsidy for rural routes, often through the Federal Transportation Administration's 5311(f) program, which provides funding to states for transportation to urban areas that have populations below 50,000.<sup>54</sup> Fifteen per cent of this fund is dedicated to the Non-urbanized Inter-city Bus Formula Program (5311 f) program unless the governor certifies that there are no unmet rural inter-city bus needs in the state. How to use this funding is at the discretion of the states. The vast majority use traditional grant programs to subsidize the capital or operating expenditures of private carriers. The most notable exception is Washington State, which uses something approaching an auction method that will be discussed later. Colorado and Oregon also do this to an extent.

# Price comparisons of select U.S. and Canadian routes

To demonstrate the potential gains from deregulating the inter-city bus industry, Frontier researchers compared routes originating in select U.S. cities with those originating in Canadian cities. Predictably, all U.S. routes were cheaper on a per kilometre basis than all of the Canadian routes (aside from Canadian routes served by curbside buses). However, Canadian routes that have curbside service have prices comparable to their U.S. counterparts. These routes are all cheaper than non-curbside Canadian routes. On the day surveyed, the Montreal-Kingston Megabus route was the second cheapest, followed by the Toronto-Niagara Falls Megabus route. Only New York-Boston was cheaper. While fares fluctuate by the day—even the hour—it is rare that curbside operators have higher fares than traditional carriers do.

**TABLE 6** Price per Kilometre for Select Canadian and U.S. Urban Routes, 31-day Advance Purchase



# Comparing the price of rural service for select U.S. and Canadian routes

The performance of rural routes is more difficult to compare, given that they are often cross-subsidized. To get a sense of how rural route prices fare under different market structures, the researchers evaluated 37 routes in four markets. They chose Saskatchewan because it is unique in having a government monopoly bus company. Montana was chosen to contrast with Saskatchewan, as it is similarly geographically isolated and has a small population. The difference between them is that Montana has a deregulated inter-city bus market. Manitoba and Washington State were included because their jurisdictions have a metro area that accounts for more than 50 per cent of the population, and most of the land mass is sparsely populated. They are also relatively geographically isolated. Every attempt was made to compare towns of similar size and distance from major centres. The destination chosen is the closer of the two biggest cities in the state or province, provided that the population exceeds 200,000. None of the municipalities chosen is within 1 1/2 hours driving distance (based on Google Maps) of the chosen destination. Driving distance was used rather than geographical distance, as different transportation infrastructure makes different lengths of commute practical.

Unlike urban routes, it is more difficult to find patterns among rural routes. This is partially because they vary greatly in their characteristics, though attempts were made to compare a roughly equivalent distribution of routes.

**TABLE 7**

## Price per Kilometre from Small Towns to Major Centres in Saskatchewan, Manitoba, Washington State and Montana with 31-day Advance Purchase

City	Province/State	Destination	\$/km	City	Province/State	Destination	\$/km
Coronach	SK	Regina	\$ 0.19	Neepawa	MB	Winnipeg	\$ 0.14
Melville	SK	Regina	\$ 0.18	Okanogan	WA	Seattle	\$ 0.14
La Ronge	SK	Saskatoon	\$ 0.18	Swan River	MB	Winnipeg	\$ 0.14
Lloydminster	SK	Saskatoon	\$ 0.17	Brewster	WA	Seattle	\$ 0.14
Yorkton	SK	Saskatoon	\$ 0.17	Thompson	MB	Winnipeg	\$ 0.14
Estevan	SK	Regina	\$ 0.17	Flin Flon	MB	Winnipeg	\$ 0.14
Leavenworth	WA	Seattle	\$ 0.17	Omak	WA	Seattle	\$ 0.13
Carnduff	SK	Regina	\$ 0.16	Sidney	MT	Billings	\$ 0.13
Eastend	SK	Regina	\$ 0.16	Manhattan	MT	Billings	\$ 0.13
Ephrata	WA	Seattle	\$ 0.16	Chelan Falls	WA	Seattle	\$ 0.13
Meadow Lake	SK	Saskatoon	\$ 0.16	Miles City	MT	Billings	\$ 0.13
Cascade	MT	Billings	\$ 0.16	The Pas	MB	Winnipeg	\$ 0.13
Dauphin	MB	Winnipeg	\$ 0.15	Terry	MT	Billings	\$ 0.13
Viriden	MB	Winnipeg	\$ 0.15	Glendive	MT	Billings	\$ 0.12
Orondo	WA	Seattle	\$ 0.15	Deer Lodge	MT	Billings	\$ 0.11



City	Province/State	Destination	\$/km		City	Province/State	Destination	\$/km	
Creighton	SK	Saskatoon	\$	0.15	Drummond	MT	Billings	\$	0.11
Quincy	WA	Seattle	\$	0.14	Polson	MT	Billings	\$	0.10
Malott	WA	Seattle	\$	0.14	Kalispell	MT	Billings	\$	0.10
Pateros	WA	Seattle	\$	0.14					

The above prices do not take into account the cost of subsidies. Since Washington State and Saskatchewan are the two jurisdictions where the government offers consistent subsidies to inter-city bus carriers, the subsidies need to be factored in to come to an accurate total cost per kilometre for a given trip. Since the Washington State Department of Transportation (DOT) tenders each route separately, the cost of the subsidy per kilometre on each route can easily be determined by dividing the total subsidy by the total number of service miles (converted into kilometres) per day. For Saskatchewan, it is a bit trickier. The easiest way to calculate the total cost per trip is to apply the average subsidy per passenger mile (converted into kilometres) to each fare. This would understate the loss, since profitable urban routes dilute the loss per mile. However, the CBA estimates that 62 per cent of route miles provided in Canada are unprofitable. If the total subsidy is divided by 62 per cent of the route miles provided (and converted to kilometres), the subsidy per kilometre is \$2.42. This pushes the cost per kilometre dramatically higher than the Washington State routes, with the exception of the 12-kilometre trip from Burbank to Pasco.

**TABLE 8**

### Per-Kilometre Cost Comparison of Subsidized Routes in Saskatchewan and Washington State, Including Subsidies (31-day Advance Purchase)

City	Province/State	Destination	Distance (km)	Price	Carrier	\$/km	Subsidy	Subsidy/km	Total cost/km
Burbank	WA	Pasco	12	\$ 4.00	Grape Line	\$ 0.33	\$38	3.17	\$ 3.50
Coronach	SK	Regina	223	\$ 43.15	STC	\$ 0.19	*	2.42	\$ 2.62
Melville	SK	Regina	147	\$ 26.25	STC	\$ 0.18	*	2.42	\$ 2.60
La Ronge	SK	Saskatoon	383	\$ 67.90	STC	\$ 0.18	*	2.42	\$ 2.60
Lloydminster	SK	Saskatoon	276	\$ 48.00	STC	\$ 0.17	*	2.42	\$ 2.60
Yorkton	SK	Saskatoon	329	\$ 56.20	STC	\$ 0.17	*	2.42	\$ 2.59
Estevan	SK	Regina	201	\$ 33.90	STC	\$ 0.17	*	2.42	\$ 2.59
Carnduff	SK	Regina	293	\$ 47.20	STC	\$ 0.16	*	2.42	\$ 2.58
Eastend	SK	Regina	385	\$ 61.80	STC	\$ 0.16	*	2.42	\$ 2.58
Meadow Lake	SK	Saskatoon	297	\$ 47.40	STC	\$ 0.16	*	2.42	\$ 2.58
Creighton	SK	Saskatoon	546	\$ 81.40	STC	\$ 0.15	*	2.42	\$ 2.57
Deer Park	WA	Spokane	36	\$ 10.00	Gold Line	\$ 0.28	\$69	1.92	\$ 2.19
Loon Lake	WA	Spokane	52	\$ 15.00	Gold Line	\$ 0.29	\$69	1.33	\$ 1.62
Wallula	WA	Pasco	28	\$ 7.00	Grape Line	\$ 0.25	\$38	1.36	\$ 1.61
Chewelah	WA	Spokane	78	\$ 15.00	Gold Line	\$ 0.19	\$69	0.88	\$ 1.08
Touchet	WA	Pasco	50	\$ 8.00	Grape Line	\$ 0.16	\$38	0.76	\$ 0.92
Addy	WA	Spokane	92	\$ 15.00	Gold Line	\$ 0.16	\$69	0.75	\$ 0.91
Arden	WA	Spokane	105	\$ 18.00	Gold Line	\$ 0.17	\$69	0.66	\$ 0.83
Colville	WA	Spokane	115	\$ 20.00	Gold Line	\$ 0.17	\$69	0.60	\$ 0.77
Kettle Falls	WA	Spokane	128	\$ 20.00	Gold Line	\$ 0.16	\$69	0.54	\$ 0.70

City	Province/State	Destination	Distance (km)	Price	Carrier	\$/km	Subsidy	Subsidy/km	Total cost/km
Discovery Bay	WA	Seattle	81	\$ 39.00	Dungeness Line	\$ 0.48	\$14	0.17	\$ 0.65
Walla Walla	WA	Pasco	78	\$ 10.00	Grape Line	\$ 0.13	\$38	0.49	\$ 0.62
Port Townsend	WA	Seattle	90	\$ 39.00	Dungeness Line	\$ 0.43	\$14	0.16	\$ 0.59
Sequim	WA	Seattle	106	\$ 39.00	Dungeness Line	\$ 0.37	\$14	0.13	\$ 0.50
Wenatchee	WA	Ellensburg	113	\$ 22.00	Apple Line	\$ 0.19	\$30	0.27	\$ 0.46
Orondo	WA	Ellensburg	130	\$ 26.00	Apple Line	\$ 0.20	\$30	0.23	\$ 0.43
Port Angeles	WA	Seattle	132	\$ 39.00	Dungeness Line	\$ 0.30	\$14	0.11	\$ 0.40
Chelan Falls	WA	Ellensburg	168	\$ 29.00	Apple Line	\$ 0.17	\$30	0.18	\$ 0.35
Pateros	WA	Ellensburg	198	\$ 32.00	Apple Line	\$ 0.16	\$30	0.15	\$ 0.31
Brewster	WA	Ellensburg	207	\$ 32.00	Apple Line	\$ 0.15	\$30	0.14	\$ 0.30
Malott	WA	Ellensburg	236	\$ 36.00	Apple Line	\$ 0.15	\$30	0.13	\$ 0.28
Okanogan	WA	Ellensburg	249	\$ 37.00	Apple Line	\$ 0.15	\$30	0.12	\$ 0.27
Omak	WA	Ellensburg	257	\$ 37.00	Apple Line	\$ 0.14	\$30	0.12	\$ 0.26

Note: Both STC and the Rural Inter-city Bus Program (RIBP) operate on fixed prices, so dates booked are irrelevant.

\*STC subsidy per kilometre arrived at by applying the average per-mile subsidy (converted to km) only to unprofitable route miles (estimated based on Canadian Bus Association estimate that 62 per cent of route miles are unprofitable<sup>55</sup>).

# The environmental benefits of inter-city bus service

While diesel buses are often perceived as dirty modes of transportation, in actuality, inter-city busing is by far the most environmentally friendly method of transportation around. A study from the Chaddick Institute at DePaul University compared the passenger miles per gallon (in diesel equivalent) of inter-city transportation modes. The results were as follows: air travel (42), private automobile (44), rail (66), conventional inter-city buses (136) and curbside inter-city buses (196).<sup>56</sup> These numbers are consistent with a 2002 Senate of Canada report.<sup>57</sup> Curbside buses are so fuel efficient per passenger that the industry is credited with reducing fuel consumption by roughly 11 million gallons per year in the United States.<sup>58</sup> This does not take into account the reduction in fuel burned by other vehicles due to the decrease in congestion because inter-city buses lured people out of their cars, nor does it account for the fact that it is reducing demand for less energy efficient forms of transportation such as air and rail. Curbside buses have reduced annual greenhouse gas emissions by roughly 242 million pounds.<sup>59</sup> Curbside buses should be the poster child for the environmental movement.

## What we can learn from U.S. airline deregulation

Prior to deregulation, the airline industry in the United States was burdened with extremely onerous regulations. The volume of flights was low and prices were high. The Civil Aeronautics Board (CAB) was responsible for setting prices and determining which airline could service what route and at what frequency.<sup>60</sup> Because airlines could not compete on price, they famously used gimmicks such as better meals to tempt customers.<sup>61</sup> Even the CAB eventually admitted that the system was inefficient and threw its weight behind deregulation in 1976.<sup>62</sup> On October 24, 1978, then president Jimmy Carter signed the Airline Deregulation Act, which ended government control over fares and service.<sup>63</sup> Predictably, fares decreased, and service increased dramatically. Median airfare declined 40 per cent from 1980 to 2005, and revenue passenger miles increased 210 per cent between 1978 and 2005.<sup>64</sup> Crucially, the average number of competitors increased from 2.2 per market in 1980 to 3.5 in 2005.<sup>65</sup>

Aside from the high-profile benefits of deregulation, two other lessons are relevant to the inter-city bus industry. The first has to do with a series of high-profile bankruptcies in the industry, and the second has to do with rural service.

Since 1978, there have been 162 bankruptcy filings in the U.S. airline industry. Recently, the entry of discount airlines in to the market has caused both United and US Airways to enter bankruptcy. This enabled them to void their labour contracts and terminate their pension plans. The cost to the Pension Benefit Guaranty Company (the U.S. federal government insurer of defined benefit plans) was \$10-billion, and the cost to beneficiaries was \$5-billion.<sup>66</sup> In light of this, the U.S. Government Accountability Office undertook a study to determine whether reregulation would benefit the airline industry and its employees. The subtitle of the report says it all: "Reregulating the Airline Industry Would Likely Reverse Consumer Benefits and Not Save Airline Pensions."<sup>67</sup> On the topic of bankruptcies, the report had the following to say:

Despite the prevalence of bankruptcy, however, we found no evidence that bankruptcy harmed the airline industry by contributing to overcapacity or by underpricing. Nevertheless, we expressed concern about the use of bankruptcy to terminate defined benefit pension plans

because of the costs to the federal government as well as to employees and beneficiaries.<sup>68</sup>

While the report did express concern over the actions of United and US Airways, it is important to recognize that they had defined benefit pension plans. It meant that employees were receiving fixed benefits regardless of how much they paid in. It is an unsustainable model. A parallel can be seen at General Motors, which is weighed down by pension obligations. Currently, only two U.S. airlines have defined benefit pension plans, which reduces financial risk going forward.

One of the major concerns about deregulation was that it might reduce the level of service to smaller airports. In order to assuage this concern, the federal government created the Essential Air Service (EAS) program, which allocates money to air carriers to serve communities that would otherwise have no service. The program has helped to maintain service to smaller centres, but there are issues with cost containment. To qualify for funding, towns must have had scheduled commercial air service in October 1978 when deregulation occurred; be at least 70 miles from a large or medium hub airport; and be able to attract service from a regional airline with a one-way, per passenger subsidy of no more than \$200.<sup>69</sup> The cost of the program in 2012 exceeds \$200-million, up from \$26-million in 1975.<sup>70</sup>

The challenge is to determine whether a community actually requires airline service. Furthermore, there is no competition from other modes of transportation. Adding to the problem is that there is no cap on the subsidy level for airports 210 miles from a large or medium hub. Ironically, some remote airports are receiving massive per-passenger subsidies, because most local residents simply drive to bigger hub airports. A U.S. Government Accountability Office study found that changes in regulatory requirements were the primary factor in a doubling of the price per mile on EAS routes between 1994 and 2009.<sup>71</sup> Population decline in EAS communities and higher-than-average fares (even with subsidies) challenge the long-term viability of the program as constituted. The cost pressures from the program led to a failed push to defund the program.

While this program is imperfect, it has fulfilled its mandate. Reducing the regulatory burden on EAS flights would go some way toward reducing the subsidy level, as would eliminating funding for some of the least-remote routes. A recent study commissioned by the Reason Foundation and the Sierra Club examined the potential for using buses to link passengers in 38 EAS communities to hub airports as a way to reduce costs. The study concluded that this method could reduce the overall cost of EAS routes by \$89-million annually.<sup>72</sup>

## What we can learn from the United States' rural inter-city bus programs

Several states have introduced programs to reverse declining rural inter-city bus service. Many of them rely on competitive tendering in order to put downward pressure on subsidy levels. Washington State's Rural Inter-city Bus Program (RIBP) is the model on which several states have based their programs, though many have introduced their own variations. Other states that use competitive tendering for rural routes include Oregon, Colorado and Maryland. While their programs vary, there are some commonalities.

First, these states have had more than one company win a contract. While traditional inter-city bus carriers such as Pacific Coachways Trailways have won contracts, Greyhound tends not to submit bids. Companies that run airport shuttles, charter services or local transit systems provide many of the routes. It is important to keep in mind how many bus companies actually exist. Currently, 1,500

bus companies operate in Canada.<sup>73</sup> That is certainly enough to make for effective competitive tendering.

Second, each state has seen measurable progress since introducing competitive tendering. Some have seen reductions in subsidies to specific routes; other routes have increased ridership at the same subsidy level, and a few have done both.

Third, all have spent less money on rural subsidies than Saskatchewan or Manitoba had (under their previous arrangements with Greyhound). STC received an operating subsidy of \$8.7-million and a capital subsidy of \$2-million in 2011.<sup>74</sup> Greyhound received \$8.4-million in subsidies from the government of Manitoba between 2009 and 2011 before the subsidy was terminated and Greyhound was allowed to reduce service.<sup>75</sup>

Fourth, all have largely relied on smaller buses to service low-volume routes. This saves on fuel and capital costs.

Below is a description of the Washington State model as well as brief descriptions of similar programs in other states.

As with most North American jurisdictions, Washington State has difficulties providing rural inter-city bus service.<sup>76</sup> To mitigate the loss of service to rural areas, Washington State introduced its Rural Inter-city Bus Program in 2007.<sup>77</sup> This program replaced traditional grant programs to inter-city carriers that provided unprofitable rural routes. The RIBP approach consists of creating a list of unserved routes in prioritized order and then putting them out to tender as funds become available. Washington State began with one route in 2007, and it has expanded to four routes. The program has resulted in savings versus the old grant system and in an increase in rural bus services. The annual savings accrue and are spent on funding new lines. The operating subsidy is paid for by matching funds from the Federal Transportation Agency's 5311(f) program and by Greyhound.

The tendering process is public and transparent. Once a request for proposals (RFP) is made, it is widely advertised. The DOT holds an open house that prospective bidders must attend, so it can explain to them precisely what the contract entails. This helps the DOT to weed out frivolous bids. This is the only interaction the program manager has with bidders. A review board appointed by the program manager evaluates bids. The bids are considered based upon the price quoted, the level of service offered and the ability of the carrier to market services. Some preference is given to local bids.

The program started with one line, The Grape Line, which was introduced in 2007 to replace a route that Greyhound abandoned in 2004. Five providers expressed interest in the route, and two bids were made. A two-year contract was granted to Central Washington Airporter (an airport shuttle company) to provide three daily round trips on the 58-mile route. While only 75 passengers rode the bus in October of 2007, the number increased to 695 passengers in October of 2010. Annual ridership in 2011 was 7,577. The per-passenger subsidy is \$38.

The DOT introduced two more lines in 2008: the Apple Line and the Dungeness Line. Northwestern Trailways, a regional inter-city bus carrier, received the Apple Line contract, and Olympic Bus, a smaller local player, got the Dungeness Line contract. Olympic provided this route under the old grant model, so there was no discontinuation of service. The 155-mile Apple Line has one daily roundtrip, and it carried 5,437 passengers in 2011 at a per-rider subsidy of \$30. The 116-mile Dungeness Line had two daily roundtrips, carrying 14,774 riders in 2011. The subsidy per rider was \$14. The most recent line is the 95-mile Gold Line, which opened in 2010. Central Washington Airporter won this contract, and it provides two daily round trips. This route had not seen bus service since 1982. Ridership in 2011 was 3,932. While Gold Line ridership was lower than that of the other lines, the Washington State DOT projects that it takes two to three years for rural inter-city bus routes to establish a ridership base. The subsidy per rider in 2011 was \$69, but that number should decrease as ridership increases.

The RIBP has helped to control costs by injecting competition into rural bus service. Under the old grant model, it was easy for providers to justify consuming the entire subsidy. Now, they need to bid against competitors. This forces them to keep costs low and, crucially, prevents them from reducing service levels. The DOT indicated that interest from potential contractors is increasing, putting downward pressure on prices. The program director stated that the cost per mile of service is declining. Furthermore, local businesses are showing a strong interest in becoming ticket vendors. Most of the communities that are served by major highways have inter-city bus service thanks to the RIBP. The DOT may spend 15 per cent of the \$1.2-million 5311(f) funds it receives annually from the Federal Transit Administration. Total program spending between 2007 and 2010 was \$4.3-million. In other words, even though it has expanded service continually, the DOT spent \$500,000 less than it had allocated for inter-city bus service. Under the old grant system, the entire amount would have been spent. Under the old model, service was declining.

**TABLE 9** Washington State Inter-city Bus Subsidies (2007-2012)

**Travel Washington  
Contract Expenditures**

Bus Route	Contract Period	Expenditures
Apple Line	2007-2009	\$238,493
	2010-2012	\$273,582
Dungeness Line	2007-2008	\$238,886
	2008-2010	\$763,742
	2010-2012	\$650,855
Grape Line	2007-2009	\$705,485
	2009-2011	\$669,526
Gold Line	2010-2012	\$763,084
<b>Total</b>		<b>\$4,303,653</b>

All participating providers must offer interline tickets, meaning that a person can purchase a single ticket to any served destination in the country, even if the trip involves more than one carrier.

Washington State is one of the only jurisdictions in North America in which rural service is increasing. Oregon also uses a portion of its \$1.2-million in 5311(f) funds to tender rural inter-city bus service. The state also contributes some matching grants, which add up to less than \$100,000.<sup>78</sup> Oregon has five different routes, which are tendered to three different providers. Greyhound abandoned some of these routes. The RFP process is similar to that employed by Washington State. The subsidies focus exclusively on routes that do not have enough density for a private operator to break even on an unsubsidized basis. The least dense routes have monthly ridership of around 300, and the densest have ridership that exceeds 1,000 per month.

Colorado receives \$1.3-million in 5311(f) funds, which it spends primarily on inter-city bus service. The state provides an in-kind match, which can cover up to 100 per cent of operator loss on a route.<sup>79</sup> The in-kind match may be used for operating deficits only. The subsidy is based on operating loss per mile. The total subsidy is determined in advance, so the provider does not receive more money if its losses increase. Contracts are for a one-year term. The program was established four years ago. Colorado has not seen any declines in subsidies, but it has seen added services with the same subsidy level. The state has succeeded in increasing overall service levels. Currently, four routes receive subsidies. Colorado is in partnership with Kansas, Utah and Nebraska to subsidize inter-city services among the states with 5311(f) funds.

Upon completing a statewide rural inter-city needs assessment, Maryland identified underserved corridors that could be funded by 5311(f) grants.<sup>80</sup> Unlike Washington State, Maryland decided against an RFP and instead went with a grant program. The rationale was that the DOT does not have adequate staffing to oversee an RFP. Instead, DOT officials approached carriers in the state that they thought would be qualified to provide specific routes. The carriers were offered contracts that had performance benchmarks, including increased ridership. Service began in January 2011. The 2011 subsidy was roughly \$730,000.

## Creating a new regulatory framework

Opponents of deregulation in Canada point out that it could lead to further losses of rural service. A 1998 study found that 26 per cent of routes would be abandoned, and 31 per cent would experience service reductions, which would affect 22 per cent of existing passenger traffic.<sup>81</sup> However, in a 2010 study, the Council of Deputy Ministers Responsible for Transportation and Highway Safety found that:

[t]he experience in Canada so far has shown that the move toward deregulation has not led to an abandonment of service. According to a 2001 Transport Canada study, several provinces which have deregulated or liberalized regulation (Alberta, Ontario, New Brunswick, and Newfoundland and Labrador) have not reported significant service abandonments.

In those jurisdictions where entry has been eased, there has been some entry of small players, but the extent of entry and additional competition has been relatively small. Alberta, the province with the most deregulation experience, encourages carriers that abandon routes to consider finding a replacement carrier for the abandoned route.<sup>82</sup>

Nevertheless, rural service has declined both in provinces moving toward deregulation and in those resisting deregulation. For this reason, it is important to balance the benefits of a competitive framework with financial support for rural routes for which inter-city bus service is deemed socially necessary.

The benefits of a regulatory regime that accommodates low-cost curbside busing would be significant. This would not be restricted to the country's biggest cities. The former finance director of First Group (owners of Greyhound and Bolt Bus) recently stated he thinks this business model will work across the entire United States. Logically, there is no reason why it should not apply to major Canadian routes.<sup>83</sup> He also stated that he views curbside busing as a complement to traditional inter-city busing rather than a competitor.<sup>84</sup> After all, availability of curbside buses has proven to attract urban professionals who would otherwise not use inter-city buses. Additionally, increased availability of curbside buses can make trips to non-urban centres more convenient and cheaper, because riders with non-urban destinations may take curbside buses for part of the trip to save time and money. In this respect, deregulating prices and service levels to allow for the expansion of

curbside service could also benefit riders with non-urban destinations.

Provinces should adopt regulatory regimes that harness market forces so that they can increase inter-city bus service in urban areas while maintaining rural service levels. Below are steps that can be taken to meet these goals.

## Price deregulation

To ensure low prices on profitable routes, prices need to be set by supply and demand. Largely, prices have been allowed to float in most of Canada, though the cross-subsidization model has ensured that Greyhound has kept its profitable routes artificially expensive to cushion losses from unprofitable routes. The industry is moving away from the cross-subsidization model and this will be a benefit to consumers. The notable exceptions are Saskatchewan and Quebec, where cross-subsidization (as well as direct subsidies) appear poised to continue. Provinces should fully deregulate fares, allowing competition to drive down prices on currently profitable routes. The expansion of curbside service in the United States and the Niagara-Montreal corridor is evidence that inter-city bus service between urban routes can be provided at a lower price and higher frequency if prices and service levels are allowed to fluctuate. The CBA does not oppose deregulation so long as safety standards are maintained.<sup>85</sup>

## Regulatory reform

The CBA has recommended that other provinces follow Ontario's model, whereby carriers are permitted to change or abandon routes with 90 days notice.<sup>86</sup> It is a reasonable proposition. Having a short notice period for discontinuing service makes it easier for companies to experiment with new routes. Sometimes routes prove to be uneconomic, but the only way to determine whether this will be the case is to allow carriers to experiment. An example is the one city where Megabus expanded service and subsequently reduced service levels: Pittsburgh. It tried to establish ridership between Pittsburgh and Toronto and failed. Had there been onerous regulations in place, Megabus likely would not have even attempted to establish that route. Given their success rate in establishing new routes, it is better to allow Megabus and other curbside carriers to experiment and to fail occasionally than it is to put up barriers to keep them from entering markets in the first place. Rather than forcing new entrants to prove that their service is necessary, jurisdictions should move toward a reverse onus system whereby, in order to block their entry, opponents of new entrants must prove that they will cause demonstrable harm.

## Fuel tax rebates

Fuel taxes are used in part to relieve road congestion. It seems perverse to charge inter-city buses the full cost. The federal government should provide rebate cheques to inter-city bus companies based on the number of passenger kilometres they provide annually. It would save the industry roughly \$6-million a year.<sup>87</sup>



## Reducing subsidies to competing modes

The CBA has identified a number of subsidies to competing modes of transportation. These include trains and regional transit services. Via Rail currently receives roughly \$350-million annually in federal funding, which amounts to a \$90 per-passenger subsidy.<sup>88</sup> The subsidy is particularly problematic in the Windsor-Quebec City corridor, where 90 per cent of Via ridership occurs.<sup>89</sup> These corridors account for roughly half of CBA carrier profits, so subsidies to Via affect the profitability of buses.

### Least-cost subsidies

While bus service would increase and prices would decrease for urban routes, there are many unprofitable routes that only exist because of subsidies (direct or cross-subsidies). If the government wishes to ensure continued service to these areas, it should introduce a least-cost subsidy, which is consistent with the CBA's recommendations.<sup>90</sup> The government would list routes that carriers express no interest in serving, and auction off subsidies to the lowest bidder. This would put downward pressure on the subsidies required, and in some cases, carriers could bid zero if they feel they can turn a profit without subsidies. Evidence from Washington State, Oregon and Colorado demonstrates that competitive tendering can lead to lower per-rider subsidies. In fact, there is at least one subsidized route in Colorado that DOT officials think will become self-sustaining as ridership increases.

Various methods can be used to tender bus routes. Washington State provides a good model. However, it can be improved upon. The first would be to eliminate the preference for local providers. While there can be a benefit to having companies connected to the communities they serve, they are outweighed by the potential for increased competition. The second improvement would be to make the auction process public.

The proposed model would work as follows:

- The manager of a province's inter-city bus program establishes a panel of experts to determine the province's inter-city bus needs.
- The panel creates a province-wide inter-city bus plan to determine which unserved routes require service. This list of social routes should be published on the Ministry of Transportation Web site.
- A request for quotation (RFQ) is posted on the Ministry's websites, in newspapers and trade journals. A detailed presentation of the route and service levels expected (based on the province's inter-city bus plan) is published online, so prospective bidders are fully aware of the expected service level and the details of the route. After the first contract for the route expires, the winning bid level should be published with the next RFQ.
- Before the bid process, carriers should have the opportunity to inform the Ministry that they are able to service the route on an unsubsidized basis. In this case, it would be removed from the list of social routes.
- Bidding takes place in real time on the Ministry's website and is open for all to see (much like bidding on ebay).
- The opening bid is set at the maximum subsidy level that the Ministry of Transportation is willing to pay. Bids are open for a specified period, and bidders are instantly informed when they are outbid. The lowest bidder at the end of the process should be accepted unless it is the only carrier in the province. In that case, it is worth considering awarding a contract for part of the provincial service to a losing bidder in order to foster competition in the provincial market. The panel should determine in advance under which circumstances it may be worth awarding a losing bidder a contract.

- In the event of a tied bid, the route should go to the incumbent (if applicable) unless the other party is a new entrant in the provincial market.
- A fine should be established for winning bidders that subsequently fail mechanical fitness tests.
- Fines should be set in advance for failure to meet performance guidelines.
- It should be made clear in advance that no further subsidy will be paid during the contract regardless of fluctuations in ridership or costs.
- The initial contract lengths should be staggered to ensure that at least one route is available for bidding every year.
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## Smaller buses for low-volume routes

The most successful U.S. states with rural inter-city busing programs have relied heavily on smaller vehicles, such as 15-passenger vans, to serve low-volume routes. Under the system of competitive tendering described above, this is likely what carriers would provide for sparse rural routes. Provincial governments should accommodate this.

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## Conclusion

The Canadian inter-city bus industry is undergoing significant changes. Greyhound is abandoning some rural routes, while curbside busing is now available to some urban residents. With sensible reforms, provinces can stem the loss of rural routes while encouraging the expansion of low-cost curbside buses between major cities.

While subsidies will be necessary for some rural routes, least-cost subsidies are preferable to the implicit subsidies built into the old cross-subsidization model. Least-cost subsidies would allow for a more dynamic bus market on profitable routes. They would provide socially necessary routes at a lower cost than Greyhound provided under its temporary subsidy arrangement with Manitoba, and lower than the cost of rural service provided in Saskatchewan by STC. Equally as important, they would end the practice of forcing low-income urban residents to subsidize low-income rural residents, and they would do it without reducing rural service.

The status quo is untenable. With sensible reforms, Canadian provinces can emulate the success of the curbside bus industry in the United States as well as the success of the Niagara to Montreal corridor and maintain rural services. The alternative is a steady erosion of service levels and ridership. More competition will maximize the efficiency of public funding while providing lower costs and better service for inter-city bus riders.

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