

Transit Industry Trends: A Perspective on Contract Public, Education, and NEMT Segments

Industry Overview

Contract passenger transportation in the United States is a multi-billion-dollar industry. Private contracting has been used in the US and around the world for decades to deliver high-quality, innovative and cost-effective transit services on behalf of government agencies. Contracting can lead to desirable service outcomes for riders with effective collaboration and contractual agreements between the private contractor and public entities, especially if best practices are followed.

These best practices include:

1. Contracts should foster and encourage positive working relationships between the private firms and the public transit agency
2. Contracts should allow the private contractor the flexibility to innovate
3. Public agencies should be tightly aligned and collaborate with the contractor on workforce issues to ensure good transit service and outcomes

How transit agencies can succeed at outsourcing operations

Nearly two-thirds of US transit agencies contract part or all their operations. Of the 533 agencies that fully reported data to the Federal Transit Administration in 2022, about 60% contracted all or some of their bus services according the 2024 Eno Report. This trend will continue and likely increase as transportation providers look to reduce costs and enhance the passenger experience.

“If a public agency is...trying to engage the private sector to save money...a true public-private partnership is when risks and rewards are shared fully.” (ENO Report, 2024)

Transit agencies reach out to organizations, including private contractors, for new technologies, processes and resources. These include customizing contracts to the mode of service, allowing the contractor the flexibility to innovate, and introducing new technologies, such as transit data software, and adaptive transit services to create positive working relationships between the agency and vendor.

Three sectors – education, public transit, and NEMT – have significant growth potential and are highly fragmented, representing a consolidation opportunity that can benefit from contract best practices and technology platforms. We explore these sectors below.

1. Education Transit Market

The U.S. education market for contract transportation services is large and growing. America’s fleet of school buses is more than twice the size of all other forms of mass transit combined, including bus, rail, and airline transportation (Source: Bellwether Education Partners). School transportation is provided through three primary service models: district-provided service, contracted service, and public transit. The per-student costs of transportation have increased substantially over the last 40 years, putting significant strain on school and district leaders, bus drivers and transportation providers, and students and families.

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Top 20 U.S. School Bus Fleet Contractors 2023		
Fleet (vehicles)	Contracts	Students
> 98,000	2,650	> 1,000

Source: School Bus Fleet

Current projections put the market at \$12B with 480,000+ school buses operating in the American market with a 2024-2027 CAGR of 5.67%. Two practices can help drive more productive service models, these are

Technology

States and districts should invest in tools and technology to help **collect, analyze, and use data to improve efficiency and make informed decisions** about school transportation systems.

Collaboration

Districts should **consider innovative ways to collaborate on providing school transportation services**, including partnerships between districts, or improved coordination across sectors.

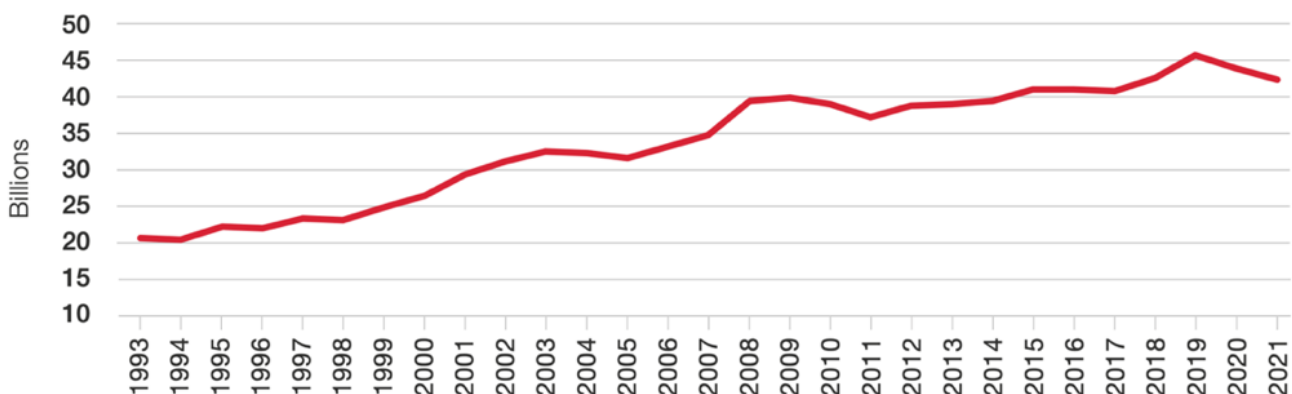
2. Public Transit Market

Public transportation is available in every state across the United States, both in cities and more rural areas, providing trips for billions of commuters each year. Of the 2,210 NTD reporting systems, 1,281 were in rural areas and 929 were in urbanized areas.

Nearly all public transit services are provided by or contracted for by public agencies. Most of the vehicles operated by contractors were provided by public transit agencies, with approximately 88 percent of all contractor- operated buses owned by transit agencies.

Figure 33: Public Transit Expenditures Flow to Private Sector

Estimated Transit Expenditures in the Private Sector (In 2021 dollars)



SOURCE: APTA FACT BOOK ANALYSIS

Current projections put the market at \$49B with the market forecasted to increase with a 2024–2027 CAGR of 0.86%. Of this market, \$25B is estimated to be outsourced public transit.

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3. Paratransit (NEMT) Market

As of December 27, 2020, federal statute requires states to provide non-emergency medical transportation (NEMT) to Medicaid beneficiaries who have no other means of transportation to medically necessary health care services. Within federal guidelines, states have discretion in how they provide NEMT and use a variety of delivery system models and reimbursement approaches.

Current projections place the market at \$9.7B, forecasted to increase with a 2024-2027 CAGR of 10.5%. A projected 142 million individuals will suffer from chronic illness by 2050.

NEMT Delivery System Approaches

States have the flexibility to design its NEMT delivery system to accommodate their operational, demographic, and geographic needs and characteristics. They use a variety of delivery system models including administering the benefit directly “in-house,” carving the benefit into its managed care arrangements, and contracting with a transportation broker on either a fee-for-service (FFS) or capitated basis. Adopting a broker model may allow a state to access greater NEMT expertise and specialized technology.

Transportation Network Challenges in Rural Areas

NEMT programs often face significant challenges maintaining an adequate transportation network, particularly in rural areas. Transportation Network Companies (TNC) offer several advantages and opportunities for supplementing NEMT supply for able-bodied, independent beneficiaries but they are not appropriate for a large segment of the NEMT population, including those who have physical or intellectual and developmental disabilities. Consolidation opportunities can provide better service at reduced costs with improved scheduling.

Consolidation Opportunity

Public transit, school bus, and NEMT are dealing with outdated infrastructure, legacy contractors providing low-quality service, and tight budgets. Contracting solutions employ a disciplined human resource approach, and enhanced operating software to optimize routing/scheduling, business processes, and real-time management reporting that improves service and cuts costs.

There is an opportunity to consolidate mid-market paratransit and school bus service providers and drive market share gains through scale advantages, such as targeting Tier II cities with historically higher profit margins and fewer national providers, infusing competencies in contracting, operations (safety, driver utilization management, route scheduling), and introducing technology to drive growth and margins. An operator could create significant value pulling these levers – and inspire customer loyalty – by pursuing an asset-light fleet funded by agencies and schools.

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Robert Merlotti is a managing partner in the Detroit office of the Avec Group. At Avec, we're focused on amplifying growth for middle market businesses (\$10M-\$500M). Our experienced team has been on both sides of transactions and in sectors ranging from automotive to healthcare. We also understand the deal close is just the beginning—we'll work with you to unlock sustainable revenue growth.