The original publication of the *Procurement Handbook for Transit System General Managers and Senior Executives* in 2005 was an effort undertaken by the National Transit Institute (NTI), the Federal Transit Administration (FTA), and the American Public Transportation Association’s (APTA) Procurement Task Force.

The APTA task force was charged with moving the industry toward a less adversarial and more collaborative procurement process, and fostering broader understanding of the business needs and challenges facing both the public and private sectors.

This updated edition of the Handbook has been sponsored by APTA’s business members and led by the Business Member Procurement Committee chaired by Natalie Cornell. In its work to strengthen the business climate in the public transit industry, the committee supports procurement training through sessions at APTA conferences and promotes practices that simplify the way we do business together.

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Procurement is an integral part of a public transportation agency’s overall business strategy.

By understanding the importance of this core business discipline, transit industry executives can achieve lower costs, higher quality, improved safety, and an enhanced reputation for their agencies.
INTRODUCTION

Procurement is arguably the **single most important factor for a public transit agency’s bottom line.**

When managed successfully, it can lower costs, improve safety, increase quality and efficiency, and enhance a system’s overall reputation—among riders, government officials, and the public. As a result, more transit leaders view “supplier management” as a key business discipline.

During the past 20 years, the role of procurement within public and private sector organizations has changed dramatically—from simply buying goods and services to overseeing an integrated set of strategic functions. Today, it’s not unusual for public transportation systems, regardless of size, to spend as much on suppliers as they do on in-house operations.

**Sound procurement practices are sound business practices.** Such practices are driven by effective management, not government mandates or burdensome regulations. Procurement is an integral part of a public transportation agency’s overall business strategy.

**Procurement professionals need to be business-savvy masters of change.** The people responsible for sourcing and acquisition are not only managing traditional customer-supplier relationships; they also must develop new approaches, envision future needs, assess and respond to changing market conditions, and demonstrate true business benefits.

**Effective procurement is an important business asset for public transit executives.** Taxpayer-funded transit systems must be responsive to a broad range of stakeholders. As a result, public transportation agencies are increasingly managed like companies. As our industry continues to borrow best practices from the private sector, transit executives are making the same kinds of business decisions—regarding value, risk, cost, diversity, service, etc.—as the CEOs of for-profit enterprises.

**This Handbook provides transit industry executives—from CEOs and executive directors to general managers and operations VPs—with an understanding of fundamental procurement principles.** It includes insights about industry suppliers, government rules and recordkeeping, and practical advice from transit leaders.

Most importantly, the information is designed to bridge the gap between the role of the senior management team at an agency and the responsibilities of your procurement team, thereby allowing you to leverage this key business discipline to deliver valuable, new benefits.
Executive’s Role: Leadership, Oversight & Attitude

As a public transportation executive, you have a unique responsibility to serve the needs of the public and engage a wide range of stakeholders.

As a business leader with oversight for sourcing and acquisition, you also make strategic, commercial decisions to fulfill your agency’s mission and maintain a viable organization.

Taken together, these often complementary roles require transit executives to:

• Educate the entire agency about how procurement contributes to the organization’s overall goals;

• Build and support an interdependent, cross-functional, business-focused procurement team;

• Demonstrate a commitment to quality, integrity, transparency, and performance-based results;

• Ensure procurement goals are aligned with the agency’s overall mission and budget;

• Encourage the use of best business practices; and

• Meet the Board of Directors’ expectations for involvement in the procurement process.

By creating an atmosphere where procurement is viewed as a critical competitive advantage rather than an exercise in transactions and compliance, an executive can strengthen day-to-day business operations as well as partnerships between the agency and a network of suppliers.

Board’s Role: Oversight & Strategic Goal-Setting

Public transit agency boards have a unique role to play in procurement. Boards of directors define the strategic direction and approve annual budgets. Procurement policies and practices need to be compatible with the organization’s overall vision, goals, and funding—all business components under the board’s authority.

Additionally, boards have legally-binding fiduciary responsibilities. Sound business practices compel every transit agency and its board to establish procedures for expenditures, contracts, transparency, ethics, decision-making, risk management, and legal compliance.

Obviously, each board must decide the degree to which it wishes to be involved in its agency’s procurement process. Whether it’s how a contract affects an agency’s policies, a dollar threshold of a purchase, change orders or potential conflicts of interest—a variety of issues may require board oversight.

Regardless of a board’s level of involvement, mutually-understood objectives, expectations, and clearly-defined roles are essential among the board, the transit system’s managing executive, and agency staff. While specific activities may vary among public transportation agencies, important roles for the board include:
• Setting broad goals for procurement activities that support the agency’s mission and vision;

• Shaping a positive environment in which procurement is conducted—from effective partnerships and risk-sharing to encouraging a mix of procurement methods;

• Promoting more efficient, streamlined rules for contracts, change orders, etc., including delegating specific decision-making authority;

• Supporting training and staff development in such areas as business knowledge, finance, negotiations, sustainability, strategy, and government programs and requirements; and

• Incorporating the industry’s best practices into the agency’s procurement policies and procedures, and urging state and local governments to do the same by updating laws and regulations.

One area where the board is advised not to become involved is during an ongoing competition or dispute. Although well-intentioned public officials are sometimes asked to intervene on behalf of a supplier, board members should firmly avoid these situations. This will help protect the integrity of the process and ensure fair and open competition, as required by the Federal Transit Administration (FTA).

APTA’s publication, *Transit Procurement: A Guide for Transit Board Members*, addresses these and other issues in greater detail and offers concrete recommendations for every board to consider. The guide can be viewed at [www.apta.com](http://www.apta.com).

**Procurement Team’s Role: Diverse Expertise**

Successful procurement is no longer a one-person or one-department role. In a recent survey of procurement executives, more than 90 percent said their job responsibilities had greatly expanded and now required ongoing collaboration with other business partners.

To effectively manage the agency’s acquisition of equipment, goods, and services, the chief procurement officer must have the authority to make critical business decisions and resolve issues at the highest level. The individual in this position should be a member of the senior management team.

Making procurement a critical part of a transit agency’s strategic business plan begins with a team approach. Today’s modern transit systems are complex, requiring specialized expertise and the involvement of a variety of functions.

“In procurement, an investment in knowledge provides the greatest returns.”

— DANIEL ERBLING
The agency’s stakeholders have common objectives, but there also are likely to be competing interests. Thus, at the start of any procurement process, public transportation executives must:

1. Communicate a clear definition for success;
2. Define operating guidelines for decision-making; and
3. Model behaviors that promote cooperation and collaboration.

In addition to the project or contract procurement officer, the team might include representatives from the following stakeholder groups:

**End Users**
Individuals within the agency who use, operate, maintain, and depend upon the equipment and/or services to be procured are a vital resource. These individuals are best able to identify needs, assess products and services, and recommend innovative ideas that can help them be successful in their jobs.

**Finance**
Budget, accounting, and financing professionals not only protect the fiscal interests of the agency, but also of the public and government officials. They are knowledgeable about a variety of funding options and help ensure transactions comply with all agency standards and statutory requirements.

**Civil Rights**
The involvement of the Disadvantaged Business Enterprise (DBE) staff is critical in the procurement process. They are an important resource in determining DBE availability and in evaluating a company’s compliance with good faith efforts and related agency requirements.

**Legal**
Legal oversight is essential for every transit agency that relies on government funding, generates public revenue, and complies with federal, state, and local requirements. Specialized expertise in procurement, labor relations, and contract law are particularly important.

**Human Resources**
Where there is an impact on employees, there is likely to be a need for HR involvement. Sourcing and acquisition decisions can affect job descriptions, training needs, work environment, union work rules, and employee morale.

**Marketing / External Relations / Public Affairs**
A transit agency’s purchasing decisions can affect the image, reputation, and branding of the organization. External stakeholders such as customers, elected officials, community leaders, regulators, business partners, and special interest groups may have opinions about what, why, how, when, and where an agency spends money. Proper planning can ensure the agency has a positive story to tell—directly or through the media. In this way, effective procurement not only protects a transit agency from potential criticism, but also can be an asset for marketing, external outreach, and government relations.

**Internal Rules & Procedures**
When managed effectively, procurement involves the entire agency. As such, clearly defined roles, responsibilities, decision-making authority, ethics guidelines, and dispute resolution procedures must be in place and should be widely disseminated to all employees.

It is especially important that the agency’s procurement team has a thorough understanding of the written rules and procedures. This will help eliminate inefficiencies, redundancies, and potential conflict-of-interest problems, as well as promote greater collaboration and shared accountability.

The agency’s rules and procedures need to be consistent with:
- FTA’s procurement standards and requirements as defined in the most recent version of FTA Circular 4220;
- FTA’s Best Practices Procurement Manual;
- State and local laws and regulations; and
- Your agency’s unique operational needs.
Without proper management throughout the life cycle of a contract, a transit agency can expect to incur extensive staff and audit expenses.

Successfully managing a contract extends well beyond the bid and award.

That may appear self-evident. It might even be an explicit policy, as it has been at the Charlotte Area Transit System, where we defined contract administration as “the total contract management process covering the life of the contract to achieve contractual goals and objectives.” In reality, the practice did not always match the policy.

There is a natural tendency during the procurement process to allocate more time to awarding the contract than to managing it. Many transit executives assume that the “management and maintenance” of the work will be the responsibility of the “project manager.” However, these individuals are under pressure to complete the job. As a result, the work of “project managers” tends to be about the end game—outcomes, results, and deliverables.

Without proper management throughout the life cycle of a contract, a transit agency can expect to incur extensive staff and audit expenses to address and document contract modifications, change orders, performance issues, and unanticipated costs. This can be an expensive and lengthy lesson, especially when it occurs at the end of the contract cycle.

After experiencing deficiencies with a major project closeout, the Charlotte Area Transit System learned that a more comprehensive approach was essential. To ensure more thorough, ongoing involvement throughout the contract process, our agency refocused its resources on post-award management. “Contract administration” rather than “project management” became the umbrella for oversight through the procurement process.

To make that goal a reality, we emphasized the role of the Contract Administrator by ensuring the position was:

- Viewed as a team member and vital partner with the Legal Counsel and Project Manager
- Integrated fully into the process to ensure a complete understanding of all the elements, actions, and goals
- Visible, aware, and in communication with vendors or contractors concerning our agency’s performance expectations.

Transit organizations that approach the procurement function from this perspective—and that dedicate the necessary resources to manage contracts—can lower their costs, strengthen their credibility with vendors, and enhance their reputation with the public.

Procurement isn’t only the act of buying goods and services; it’s about effectively managing the acquisition process throughout the entire life cycle. Successful agencies use this knowledge to manage change rather than react to it.
Establishing Priorities

To know and articulate your agency’s needs seems simple and straightforward. Taking time to test assumptions and gather new information, however, can mean the difference between customer satisfaction and buyer’s remorse.

Effective procurement planning begins by identifying the priorities needed to achieve the agency’s strategic goals. Those priorities need to be built on sound business decisions: What is needed, is it necessary, and how will it contribute to the agency’s objectives? As one business executive famously said, “Don’t tell me what your priorities are; show me where you spend your money and I’ll tell you what they are.”

Developing annual procurement plans and multi-year acquisition strategies for major procurements will facilitate better business decision-making, help obtain the most current market information, allow improved allocation of staff resources, and make the budget process smoother. Members of your procurement team, rather than the general manager or chief executive, need to lead this work, with strong influence from the end users and the finance staff. This approach satisfies basic good governance: procurement experts ensure the appropriate procurement procedures; end users ensure the benefits are achievable and that the solution supports the business objectives; and finance personnel ensure budget impacts are correct and funding is available. In establishing priorities, the procurement team needs to consider a variety of questions:

- What are we buying and how does it support the agency’s strategic plan?
- Are there industry standards, innovations or experiences that should guide our decision?
- Is leasing an alternative?
- What specifications and performance goals are essential to the agency, and do we communicate them clearly in our solicitations?
- What type of procurement process is most appropriate—a joint procurement with other agencies, sealed bids, or competitive proposals?
- Do we understand the most current market conditions to guarantee our specifications will not be outdated or irrelevant?
- Are we familiar with the latest technologies that could affect our purchasing decision?
- Does the Board have issues of concern about the procurement?
• **Are there potential conflicts-of-interest?**

• **Is there a need to address issues that pertain to specific schedules or risks, DBE and minority business enterprises, Buy America rules or payment terms that could reduce costs?**

Taking the time to consider these issues and establishing priorities in the procurement plan will help ensure better-informed decision-making and prevent unanticipated problems after the procurement process is underway.

**Types of Procurements**

A range of purchasing methods is available for public transit agencies, including sealed bids, competitive proposals, and sole source procurements.

**Best Value Procurement (Requests for Proposals—RFPs)**

In our personal lives, we often make purchasing decisions based on best value rather than lowest price.

We not only consider the initial cost of the product, but also the cost over the life of the product, quality, and a variety of other factors. This isn’t only a smart approach in personal finance; it’s a sound business principle.

When allowed by law, the Request For Proposal (RFP) procurement process allows transit agencies to apply best value judgment in procurement decisions if:

1. A performance specification is used;
2. There is uncertainty about the number of suppliers;
3. Factors other than price must be considered; and
4. Discussions with individual suppliers will be necessary.

Transit agencies routinely use RFPs that emphasize “best value” over “lowest price” when buying revenue vehicles, technology systems, professional services, and some construction services. In these cases, the perceived benefits of the higher-priced proposals justify the additional cost.

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**Successful leaders don’t start by asking, ‘What do I want to do?’ They ask, ‘What needs to be done?’**

Then they ask, ‘Of those things that would make a difference, which are right for the organization?’

— **PETER DRUCKER**

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The RFP process is essentially a negotiation that allows the agency to talk with the companies providing competitive proposals. This builds mutual trust. It also helps ensure the proposers understand the agency’s goals and performance requirements, and that the agency understands the solutions being offered.

Contract terms and conditions, including how risk will be allocated, can be structured to the mutual advantage of both the agency and supplier. Still, there can be challenges with a best value procurement.
First, transit executives need to manage public perception about spending taxpayer dollars on a higher priced proposal. Evaluation and trade-off decisions must be well-documented.

Second, the agency’s board needs to understand and support procurement decisions that are based on value rather than lowest bid. Agencies are often reluctant to ask their boards to approve higher-priced purchases, but if the business case is strong, it needs to be made.

Finally, suppliers note that agencies often turn the RFP process into low-bid procurement when best and final offers are received, selecting the lowest price proposal after all the discussions and negotiations have been completed.

Effective procurement planning begins by identifying the priorities needed to achieve the agency’s strategic goals. Those priorities need to be built on sound business decisions.

Third, the agency’s supplier and contractor community needs to be made aware that the evaluation criteria detailed in the RFP are designed to measure “best value.” The agency should provide a clear explanation of its requirements, expectations, and priorities. When the agency doesn’t fully articulate this information in a solicitation, contractors lack a true understanding of the agency’s needs, and thus, are unable to address those needs in their proposals.

Low Bid (Invitations for Bid—IFB)
In some cases, where products or services are relatively standard and easy to specify, some agencies prefer to use a low-bid system. Under this approach, proposals are evaluated exclusively on the basis of price. In most cases, the companies invited to the bidding process have been pre-qualified so the agency is assured they have the experience and capability to deliver the goods or services. It is also possible to use this method for highly complex procurements like rolling stock, but only if the process includes qualifying the prime contracts and the sub-contractors before the pricing is submitted.

Sole Source
Another major type of procurement is a sole source contract where only one supplier is asked for pricing or is awarded the contract without competition. Most agencies have limits on what can be sole sourced, based on dollar value (i.e., orders less than $10,000) or because there is only one supplier for that product. Transit agency executives and their boards need to be cautious with these types of contracts since they can be abused. Transparency and proper controls need to be imposed in order to ensure all sole source contracts are legal.

Risk Management
Risk is one of the most important elements in procurement. All parties to a procurement must evaluate their risks independently and factor them into either the procurement documents or the response. Risk management is the process of identifying, assessing, and controlling risks during the procurement process.
Identifying specific risks is the first step. Common categories to consider are:

- **Financial Risks**, including fluctuations in the cost of materials or labor, funding limitations, unplanned changes and cost overruns, missed milestones, and economic downturns.

- **Scope or Schedule Risks**, including natural disasters and poor project definition, both of which can threaten the work schedule and result in unanticipated costs.

- **Legal Risks**, usually associated with disputes or failure to meet contractual or regulatory obligations.

- **Planning or Project Organization Risks**, which often result from not having the right people and/or equipment in the right place at the right time.

- **Environmental Risks**, including any activity that has a negative effect on water, air or soil.

To successfully manage risk, public transit executives must find the most appropriate ways to share risk with their vendors and suppliers. This requires finding the necessary balance between pushing all or most of the risk to contractors (and paying higher prices that contractors must demand to provide for broad contingencies) and having the agency retain all or most of the risk (which can potentially undermine operations and budgets).

**Defining the Risk**
A transit agency’s procurement team should begin by defining the risks to all parties, understanding mitigation techniques, and assigning responsibility to the party best able to control the risks.

With a **performance specification** (when the agency specifies what the product must be able to do), the contractor has almost total control over the final product and can more comfortably work without a contingency for potential mistakes.

Alternatively, with a **design specification**, the contractor is required to use the information provided by the agency, and therefore, has much less control over whether the final product will work as intended.

Most transit procurements are a combination of performance and design requirements, but many agencies have difficulty assigning risk in these mixed specification projects. Agencies can share or mitigate risks by working with potential contractors in the RFP process to align elements of risk to the party that can best manage them. Be aware that the contractor will make sure its potential costs are covered when it assumes the risk if, in fact, it is possible to cover the risk financially.

**Contractual Risk-Sharing**
Risk-sharing agreements must be written into the terms of the contract. In this regard, direct and sometimes difficult discussions with suppliers are necessary before a contract is awarded. Avoiding such discussions or burying risk issues in detailed terms and conditions can strain the relationship between the agency and its contractors, thereby making a problem more difficult to resolve.

Adopting industry standards, such as APTA’s Standard Bus Procurement Guidelines or Light Rail Vehicle Procurement Guidelines, could help address these and other risks, including liquidated damages, delivery schedules, consequential damages, etc. These standards reflect proven designs, industry capabilities, and commercial terms that contractors and their suppliers are prepared to support.

If a transit executive and the procurement team work through these concerns with the supplier community prior to issuing a solicitation, the agency will have gone a long way toward successfully managing its risks.
Price Fluctuations
In the case of price increases, a different approach might be used to limit higher costs or potential harm. If the risk of price escalation rests solely with the contractor, the transit agency can expect the contractor to incorporate a substantial contingency in its prices. If the risk rests solely with the transit agency, a large price jump could prove disastrous to the agency’s budget. With a true risk-sharing arrangement, the contractor may suffer a loss if prices jump wildly, but it can take some comfort in limiting its exposure. The agency, on the other hand, may obtain more favorable pricing and take similar comfort in the fact that its contractor will share some of the unforeseen price inflation.

Selecting a Business Partner
Selecting the right vendor, supplier or contractor requires developing the right evaluation criteria in an RFP. When choosing a new business partner, a transit agency should employ a transparent evaluation process to ensure full, fair, and effective consideration. Evaluating a supplier’s offer means not only examining its bid or proposal based on cost, but also considering its ability to meet quality, time, and other requirements.

In performing the proper due diligence, the agency should evaluate three key criteria:

- **Responsiveness**, the thoroughness of the supplier’s response, degree of detail, and level of understanding of the agency’s needs;
- **Responsibility**, the company’s capability to perform the work, as well as its prior performance with customers and its financial health and stability, assets, management, etc.; and
- **Competitive Value**, the rationale for why the proposal offers the best value in technical factors and how the cost compares with other proposals.

However an agency chooses to evaluate a submission, a well-planned, carefully-researched assessment of a potential supplier can ensure a successful procurement and help develop long-term business partners. It also should include an assessment of any unique attributes or requirements of the agency.

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CONSIDERATIONS

Do we have an annual procurement plan? Do we allow adequate time when scheduling procurements to keep the workload steady and the quality high?

Who is responsible for initiating a procurement?

How does our risk position affect the prices we pay and the pool (number and diversity) of potential vendors and contractors we attract?

What selection criteria are unique to our needs?

Do our evaluation criteria really explain what is important to us and will they get us the best value?

Do the procurement proposals we receive provide solutions that address our criteria, and do we understand the solutions that have been proposed?
How a Smaller Agency Can Gain Big-Agency Benefits

Smaller transit agencies have unique challenges, especially when it comes to procurement. These can include such issues as concept and technology development, bid and proposal document preparation, risk management, contract deployment, and compliance with ever-changing laws and regulations.

Today’s procurement software can help manage a variety of activities from one-time construction projects to the typical acquisition of goods and services, but software alone cannot compensate for smaller budgets and fewer staff resources.

A more effective approach for the Eastern Contra Costa Transit Authority has been to create “economies of scale” by collaborating with other agencies and by hiring subject matter experts as consultants. Our first experience with this strategy occurred several years ago when we partnered with two other small agencies in procuring the newest generation of paratransit scheduling software. This important acquisition would have been out of reach for any of us had we acted individually rather than collectively.

Since that first success story, we’ve teamed up with small agencies on a variety of procurement projects. Below are a few examples:

• Joining forces with two other agencies on a RFP for outdoor advertising, we were able to attract higher quality proposals. The resulting contract ultimately generated more revenue collectively than would have been possible had we each issued separate RFPs.

• After identifying a like-minded transit system with similar needs, we worked together to retain the services of a Washington, DC lobbying firm. This joint effort resulted in a less expensive contract and greater lobbying power.

• What began as a small, three-agency alliance to procure buses evolved into a 21-member coalition. Staff work was evenly spread among the transit agencies, thereby reducing costs, and the larger order of buses allowed us to negotiate more advantageous pricing.

• When California compelled contractors bidding on public works projects to register with the Department of Industrial Relations, transit agencies were required to include this new rule in all procurement documents. By working on a uniform solution with our transit partners and subject matter experts, we were able to make the changes more efficiently—and with the confidence that we were in full compliance with the new law.

Combining resources with other agencies on projects of mutual interest can result in RFPs that attract new bidders, increase competition, leverage better contract terms and pricing, and save time and money. The key is to forge sound, business-driven partnerships that benefit all parties.
CHAPTER 3

CONTRACT ESSENTIALS

Effective procurement is about making sound business decisions. Sound business decisions need to be reviewed and updated regularly to reflect changing circumstances. The most successful public transit agencies make this an integral part of their ongoing operations. They seek new, more equitable, and cost-efficient contract provisions, instead of relying on “standard” or “customary” terms and conditions.

As a result, these agencies have saved money by:

• **Amending indemnification clauses** that require unreasonably high insurance premiums;

• **Not assessing liquidated damages** on days when the agency is unable to take delivery;

• **Eliminating terms** that force contractors to include high contingencies in their bids;

• **Not asking vehicle manufacturers to provide warranties** that sub-component suppliers will not cover; and

• **Inviting prospective bidders** to propose alternative terms and conditions.

This chapter discusses some of the major issues that transit executives should consider when the agency is drafting, issuing, reviewing, and managing publicly-funded contracts.

Types of Contracts

In addition to different procurement methods (described in Chapter 2), transit agencies may use a variety of contract types, depending upon the needs, funding, and circumstances. Some of the most common contracts are:

**Purchase Orders (POs):**
An efficient way to make recurring or one-time purchases of goods and services, which provides the most commonly required audit trail. POs can be both an order and a means of acceptance.

**Fixed-Price Contracts:**
A common business tool that is often used in government purchases. There are five types of fixed-price contracts, including firm fixed-price, fixed-price with incentive, fixed-price with economic price adjustment, fixed-price with price redetermination, and fixed-price / level of effort.

**Cost Plus Fixed Fee:**
A cost-reimbursement contract that allows a supplier to recover actual costs plus a fee that is negotiated prior to the start of the project.
Time and Materials Contracts:
Used most often when there is no acceptable way to determine a fair and reasonable price for a particular project due to too many variables. They are similar to cost-reimbursement contracts.

It is considered a best practice for the transit agency’s procurement and legal teams to work together in selecting the most appropriate allowable contract for a specific purchase.

Cost and Price Analysis
Effective cost and price analysis is always good business practice. When using federal, state or local funds, however, it is required for every procurement action, including contract modifications.

Cost analysis
The review and evaluation of the separate cost elements and proposed profit. It requires a complete review of the proposed costs (labor, materials, overhead, subcontracting, bonds, insurance, profit, etc.) to determine whether they reflect an accurate projection of the cost of the work to be performed. Cost analysis documentation must be maintained in the contract file.

Price analysis
The process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit. The pricing data used to determine reasonableness also become part of the contract file.

Profits
Profit margins for contractors can present challenges for transit executives. Contractors need to be able to make profits that are fair and reasonable, reflect the risks associated with a particular project, and ensure the business’s long-term viability. Fair returns are essential to attract qualified companies to procurements, stimulate efficient performance, and maintain the industrial base needed to keep the public transportation industry competitive. At the same time, every agency finds itself pressured to get the most out of its budget dollars.

The combined issues discussed in this handbook—from compliance and risk management to contract conditions and change orders—all contribute to what is “fair and reasonable.” To maintain productive, ongoing relations with the supplier and contractor community, public transit agencies should seek a balanced approach that takes into account the needs of all parties. This means no overly burdensome and costly requirements imposed by the agency and no windfall profits from large contingency clauses. When contractor relations are managed fairly, reasonably, and predictably, the entire industry benefits.

It’s a very sobering feeling to be up in space and realize that one’s safety was determined by the lowest bidder on a government contract.

— ALAN B. SHEPARD, JR.

Liquidated Damages & Incentives
Liquidated damages are intended to protect the transit agency by enabling it to recover reasonable costs incurred as a result of late delivery or poor performance. Unfortunately, liquidated damages can be used inappropriately to penalize the contractor rather than as payment for costs incurred by the agency. These contract provisions should not be used as penalties.

Uncapped liquidated damages, or those in excess of the value of the product or service being delivered, create cost risks for the contractor that will be passed on to the agency in the form of higher prices.

Liquidated damages should only be included in a contract when the time of delivery
or performance is of importance and the transit agency will suffer damages. In these situations, transit executives need to know in advance about the contract manager’s plans to enforce these provisions.

On the other hand, contract incentives have the potential to reward the contractor for early delivery or increased quality of performance (based on measurable standards). Although rarely used, an incentive provision should be considered if early delivery would be an important benefit.

A balanced approach, using both positive and negative incentives, can achieve the intended result without transferring excessive risk to contractors, thereby avoiding added cost.

**Repeat Purchases**

A common procurement issue concerns the best way to purchase frequently used parts or supplies, such as screws, electrical wire, etc. Agencies should periodically review their routine purchases to determine whether it is feasible and makes good business sense to consolidate these procurements into larger contracting packages.

The benefits to transit agencies go beyond greater efficiency. Larger and longer-term contracts stimulate industry interest. Consolidating procurements can generate increased competition from suppliers who would not normally bid on smaller procurements. More competition will result in better prices.

Agencies may also wish to consider the award of “requirements-type” contracts where suppliers can bid on fulfilling all of the requirements (i.e., parts, supplies) for a specified period of time. This type of arrangement can benefit a transit agency by providing better prices, on-demand deliveries, and better inventory management.

**Bonding**

Bonding is a specific aspect of risk management and should be considered within the context of the transit agency’s various risk management practices.

A bond helps safeguard completion of a project up to a specified dollar limitation (a performance bond) or payment of a contractor’s sub-contractors and suppliers (a payment bond). In recent years, market conditions have made it more difficult and more expensive to obtain performance and payment bonds.

FTA requires performance and payment bonds in construction projects, but not for any other procurement. In construction, FTA has adopted a flexible policy that allows transit agencies to create appropriate terms that take the place of 100 percent of performance bonds and large payment bonds. For other large capital expenses, agencies often require one or both types of bonding.

Since the costs of bonds are passed on to the transit agency through the project costs, it is important to ensure that your agency is not requiring—and therefore, not buying—more protection than it needs. The goal of any transit agency should be to create a tailored package that protects the taxpayers’ investment, while still reining in costs and preserving the broadest possible pool of contractors competing for its business.

In the case of a long-term construction project with customary retainage and ongoing inspection of the work as it progresses, a 100 percent bond may prove to be an expensive comfort that may never pay off entirely, even in the most calamitous of circumstances.

Another problem with excessive bonding requirements is the potential to limit competition. Today, bonding companies limit the amounts and durations of bonds they will provide to a business at any one time. This forces the company to be selective in choosing which projects it pursues—and ties up its bonding capacity in the process. As a result, some potential suppliers and contractors may not or cannot submit a proposal for some transit projects.
CEO VIEW

The Challenges of Doing Business with Government Agencies

The goal of the procurement function in every transit agency is to provide the necessary goods and services that meet the specifications—including price, value, delivery time, etc.—of the end-user department.

Achieving that goal efficiently and effectively in a publicly-funded organization carries special burdens—and opportunities—both for the government and the business community.

Procurement at all levels of government imposes significant statutory and regulatory requirements on private-sector businesses. While these obligations are intended to assure the best use of taxpayers’ dollars, they can discourage companies from entering the competitive bidding process. Compliance and documentation often require time, staff resources, special expertise, and expenditures on such issues as reporting, “Buy America” and/or buy local rules, milestone payments, etc. This is especially true for smaller entities.

The result? Fewer bidders, less competition, and potential higher costs to the agency. This is unfortunate for public transportation as well as for potential business partners. Government contracts can provide valuable benefits to a company’s reputation, experience, and bottom line. Once a business is deemed a reliable supplier to a transit agency, it can leverage that relationship to compete for more contracts and to attract more government and non-government business.

The Southeastern Pennsylvania Transportation Authority has been working to attract a greater number of potential vendors and contractors by making contracts more attractive and the procurement process more efficient. For example, by unbundling regional rail line snow removal contracts and reconfiguring the work into station-specific packages, we hoped to attract new, small business bidders.

Still, there is no simple solution to this challenge. When we surveyed the small business community in our region, most respondents felt they would need the services of an attorney to meet all of the requirements associated with government contracting before submitting a bid. The Disadvantaged Business Enterprise (DBE) certification process was cited as one example of the burdens imposed on minority-owned firms, thereby dissuading small businesses from seeking the proper accreditation. Even after incurring the costs of obtaining a DBE designation, there is no guarantee of subcontract work.

The public transit industry along with the American Public Transportation Association (APTA) must continue to work with government agencies to streamline contract requirements. We must also highlight the benefits of winning public-sector contracts by promoting success stories.

This is a business imperative. Our industry’s future depends on partnerships with the best businesses, large and small. We always need to be seeking innovative ways to attract the types of vendors, suppliers, and contractors who can help us to be more successful.
In the policy and practice of procurement, the public sector has its own peculiarities and differences from the private sector. At the federal, state, and local levels, there are conditions and requirements that are often driven by changing political priorities. Public sector procurement is not only a process for obtaining goods and services, but also a tool for wider objectives, including economic development, civil rights, technology advances, environmental and social reforms, and fiscal responsibility.

Burdensome regulations can constrain and limit best practices, while flexible, innovative approaches can be catalysts for more effective, cost-efficient outcomes for the public.

This chapter describes some of the major public-sector issues that affect the transit procurement process.

Meeting Federal Standards
When a public transportation agency’s acquisitions are supported by FTA grant funds, the agency is required to establish and maintain a contract administration system to document the authorities, responsibilities, and procedures (including organizational directives, rules, and job descriptions). The system must ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. This should be a top imperative for every transit executive.

FTA Oversight
FTA is required by law to conduct triennial reviews of transit agency performance and compliance with all federal requirements, including those that pertain to procurement. The reviews are conducted by FTA staff and outside contractor teams. The findings and recommendations are shared in draft form with the transit agency, which is asked to provide comments before the final report is released to local, state, and federal officials.

More comprehensive procurement system reviews are also conducted by FTA to assess agency compliance with the most recent version of FTA Circular 4220.

When appropriate, corrective actions are required to resolve deficiencies in the agency’s program management or procurement system. FTA monitors the agency’s performance until compliance is achieved. If needed, FTA can invoke sanctions to be certain that the agency corrects any noted deficiencies.

Buy America Rules
Buy America is one of the important requirements attached to federal funding. These provisions, which are
mandatory, are intended to ensure public transportation infrastructure projects are built with American-made products, thereby supporting an entire supply chain of American companies and jobs. Buy America requirements, however, differ among projects that are funded by the Federal Highway Administration (FHWA), Federal Railroad Administration (FRA), Amtrak, and FTA. Transit agencies are required to comply with the rules of the funding agency.

Since the specific provisions in Buy America are subject to evolving government goals and political urgency, transit agencies need to be continuously aware of changes in rules when they occur. If there is any doubt about compliance, transit executives are strongly advised to contact the FTA Chief Counsel’s Office. Failure to comply with these regulations can result in a loss of federal funds for any given procurement project.

**General Requirements**

No funds may be obligated by FTA for a project unless all iron, steel, and manufactured products used in the project are produced in the United States. For a manufactured product to be considered produced in the United States, all of the manufacturing processes must take place in the United States and all components of the product must be of U.S. origin. A component is considered of U.S. origin if it is manufactured in the United States, regardless of the origin of its sub-components.

**Rolling Stock Procurement**

The FTA’s Buy America provisions contain a specific, statutory waiver for the procurement of rolling stock. Rolling stock is defined as any vehicle, product or system that directly incorporates components at the final assembly location, including train control, communications, and traction power equipment. The cost of components produced in the United States must be more than 60 percent of the cost of all components, and final assembly must take place in the United States. The 60 percent rule is based on total material cost. The labor cost of final assembly is not included in the percentage calculation.

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**Rail Car Final Assembly**

In the manufacture of a new rail car, final assembly typically includes the following operations: installation and interconnection of propulsion control equipment; propulsion cooling equipment; brake equipment; energy sources for auxiliaries and controls; heating and air conditioning; communications equipment; motors, wheels, and axles; suspensions and frames; the inspection and verification of all installation and interconnection work; and the in-plant testing of the product. A complete list of components can be viewed at [www.fta.dot.gov/legislation_law/12921_5453.html](http://www.fta.dot.gov/legislation_law/12921_5453.html).

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**Bus Final Assembly**

In the manufacture of a new bus, final assembly typically includes the following operations: installation and interconnection of the engine; transmission; axles; cooling and braking systems; heating and air conditioning; pneumatic and electrical systems; door systems; passenger seats and rails; destination signs; wheelchair lifts; road testing; final inspection; repairs; and preparation of vehicles for delivery. A complete list of components can be viewed at [www.fta.dot.gov/legislation_law/12921_5435.html](http://www.fta.dot.gov/legislation_law/12921_5435.html).

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**Sound business need have no fear of progressive government.**

— PRESIDENT WOODROW WILSON
Waivers
FTA’s authority to grant waivers for Buy America requirements is limited only to the following three situations:

1. Enforcing the requirements would be inconsistent with the public interest;

2. Materials for which the waiver is requested are not produced in the United States in “sufficient and reasonably available” quantities or of a satisfactory quality; or

3. Inclusion of a domestically-produced product or material will increase the cost of the contract (between the supplier and transit agency) by more than 25 percent.

As mentioned earlier, Buy America provisions are subject to change, and in recent years, this has been especially true of waivers.

Local Content
When municipalities and states struggle with slow growth and rising unemployment, elected officials sometimes feel compelled to use public transportation projects to create local jobs. While federal regulations prohibit geographical preferences when selecting contractors (except for A&E contracts), efforts have been made to require local assembly of transit vehicles.

Each public transit agency should be familiar with the procurement rules and requirements that pertain to its locale and the source of funds being used. These laws and their accompanying regulations can vary and change for political and/or economic reasons.

Building rolling stock (and its components and sub-components) is a highly sophisticated process that requires significant investment in high technology plants and equipment. As a result, requiring manufacturers to relocate or replicate those facilities in different regions across the country is not economically viable. In reality, these types of conditions complicate the manufacturer’s workforce structure, strain relations between the manufacturer and the agency, and simply move jobs from one state to another without creating any new jobs. Compared with some other countries, the market for rolling stock in the United States is too small to justify companies building several plants. The way to increase the number of jobs in the transit vehicle manufacturing sector is to increase the funding available to build more transit vehicles.

Supplier Diversity & DBE Programs
The concept of supplier diversity programs to assist economically-disadvantaged groups is rooted in a sense of fairness and equity. At the federal, state, and local levels, many of these initiatives carry statutory requirements.

In procurement, supplier diversity programs expand a transit agency’s pool of prospective suppliers by supporting new sources of goods and services. Not only does this expand competition, but it promotes a supply base that generally is more representative of the community.

FTA requires that any agency receiving more than $250,000 in FTA funds, exclusive of transit vehicles, must establish a Disadvantaged Business Enterprise (DBE) program. Additionally, many transit agencies develop their own “supplier diversity programs.” In some areas, agencies have set aside a percentage of a procurement award solely for such suppliers.

It is critical that procurement staff understand the DBE program and how to use it, ensuring collaboration and coordination between DBE and Procurement staff.

Programs and their accompanying rules vary among federal, state, and local jurisdictions. In addition to DBE, below are other categories that could be part of a public transit agency’s plan:

- Small Businesses Enterprise (SBE)
- Woman-Owned Business Enterprise (WBE)
- Minority-Owned Business Enterprise (MBE)
- Veteran-Owned and Service-Disabled Business Enterprise
- Historically-Under-Utilized Business Zone (HUB Zone)
Benefits of a Procurement-Legal Team Approach

When the Central Ohio Transit Authority (COTA) concluded a procurement system review (PSR) recently, I was reassured to receive the reviewers’ positive assessment of our policies and practices. Relatively speaking, we had few issues. The findings, however, confirmed that both the procurement and legal responsibilities have significant, interdependent roles in the purchasing process.

After six years as general counsel for the Authority, experience has taught me that a transit agency’s procurement department should be inseparable from the agency’s legal department. The two functions don’t need to be in the same department, but procurement is unquestionably an area where knowledge of and compliance with laws and regulations are essential, daily parts of the process.

From developing specifications to soliciting bids to managing the final contract closeout, legal and purchasing need to work together to ensure the agency’s procurement activities are in compliance with relevant laws and regulations and in keeping with best business practices.

This team approach is based on mutual trust and a shared set of goals. When questions or disputes arise, our procurement officials are confident they are following the proper course of action because of their working relationship with the legal department. Likewise, a sound understanding of the business drivers behind the procurement process in both the legal and procurement departments helps ensure the agency secures the best goods and services for the best price.

How effective is this working partnership? COTA’s current general counsel calls it “a critical one,” while the director of supply management (procurement) describes it as “a key factor in the continued success of the organization.”

Based on our experience in Central Ohio, I believe that legal and purchasing departments would benefit from periodically conducting internal PSRs (particularly if a transit agency does not have an internal audit function). This is important information for any transit agency CEO and board.

Fostering a procurement-legal team approach can help establish and maintain a strong working relationship between the departments; ensure the agency’s procurement policies and practices are continuously in compliance with changing laws and regulations; and provide a mechanism for appropriate board involvement.
PROBLEMS THAT AFFECT COSTS

Throughout the procurement process, a variety of problems can arise and many of them translate to additional costs. This chapter describes some of the most common and costly challenges—and offers some strategies to address them.

Change Order Controls

It is good business practice for contracts to include a “changes clause.” For a transit agency, it permits important flexibility to accommodate advances in technology and changes in the agency’s needs—or to correct deficiencies. For a supplier or contractor, it provides the means to propose changes to the work, allowing more efficient performance and improving the quality of the end products.

In both cases, the changes need to be within the “general scope” of the project.

To manage this process, the agency needs to have a “Change Order Control System” to manage project costs. The first step is to create a contract modification, which establishes the impact upon the project cost and is agreed to by both the agency and the contractor.

Such a system will help ensure that any contract modification beyond the scope of the original work includes:

- Deadlines for the supplier or contractor to submit a cost proposal detailing all aspects of the changes, and for the transit agency to analyze the cost proposal, conduct negotiations, and establish a new contract price.

Two federal issues that need to be kept in mind in a “Change Order Control System” are:

1. **When changes are priced after the work has been performed**, the resulting contract type may become “cost-plus-percentage-of-cost”, which is illegal under federally-funded contracts.

2. **When a change is outside the “general scope” of the contract** (e.g., increased quantities not covered by options or a change that creates a different end product), FTA considers this to be a new contract requirement, which must be competed or justified as a sole source procurement.
Protests & Disputes

**Protests** refer to controversies surrounding the award of a contract. The agency must have written protest procedures to evaluate and resolve complaints. When a protest is filed, the transit agency must notify the FTA regional office staff and keep them informed about the status of the protest.

The agency is responsible for resolving the protest and all decisions made by the agency must be in writing and documented in the contract file.

**Disputes** refer to controversies arising during the performance of the contract. The agency should have a standard contract clause that prescribes a dispute resolution process. As with protests, the agency is responsible for handling the dispute and keeping the FTA regional office informed.

To effectively manage protests and disputes, the agency needs to provide a clear and equitable process that protects the interests of all parties. It also must describe the agency’s protest process in its solicitation documents or reference how such information can be obtained.

**FTA’s Role:** When federal funds are involved, FTA has stated it:

- Will not substitute its judgment for that of the transit agency unless the matter is primarily a federal concern;

- Will review protests on federally-funded contracts only if the agency failed to establish written protest procedures, follow its protest procedures, or review a complaint or protest;

- Retains the right to a proportionate share of any proceeds derived from a third party recovery; and

- Reserves the right to concur in a compromise or settlement of any claim involving a federally-funded project.

Negative Cash Flow

One of the major disincentives for companies doing business with the public transportation industry is the problem of negative cash flow. Traditionally, contractors are paid after they deliver the end product to the agency. As a result, suppliers and contractors incur significant expenses in financing the work performed, particularly on larger projects.

For example, bus contracts usually provide no payments until final inspection and acceptance by the agency. Payment generally occurs 30 days after acceptance or about three months after assembly begins. Likewise, contract service providers may not get paid until the start of revenue service. For rail vendors, the timeline can be even longer.

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The bottom line of this long cash flow cycle means that financing costs are traditionally passed on to transit agencies in the form of higher contract prices. It is important for the agency to consider what the price implications are and if they can, and should, seek to reduce them.

Two ways to address this issue are progress payments and advance payments.

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*Every problem has in it the seeds of its own solution. If you don’t have any problems, you don’t get any seeds.*

— NORMAN VINCENT PEALE
Progress payments
Progress payments are recognized by FTA as a means of mitigating negative cash flow. If progress payments are made to improve contractor cash flow, protections are required to make certain the agency receives what it paid for (such as performance bonds and letters of credit) and to document that agency staff and inspectors completed the work.

Advance payments
Advance payments offer another acceptable solution, but only with prior FTA approval. These payments must be made using the agency’s local share funds. FTA encourages properly protected advance payment arrangements when they make good business sense for items such as public utility connections, rent, and construction mobilization. Adequate security for an advance payment is also required by FTA.

In general, transit agencies have the flexibility to work with FTA on payment options that make sense in any given situation.

Slow Payments
Some agencies simply don’t pay their contractors on time and the problem of slow payments has negative consequences for transit agencies and suppliers.

- Sellers, their suppliers, and subcontractors, including small and disadvantaged businesses, incur higher costs, which are passed on through higher prices.
- Limited credit lines that might otherwise be used for business growth may have to be used to finance day-to-day operations such as meeting payrolls. This can result in less innovation for the agency.
- Money spent on collecting outstanding invoices goes into the contractor’s overhead costs and is passed on to the transit industry in the form of higher overhead rates.
- Working relationships between the agency and the vendor community can become strained, leading to a shrinking pool of companies willing to compete for procurement projects. Less competition can lead to higher prices and a more limited choice of business partners.

Some payment delays are caused by invoices that generate legitimate questions by the agency. It is not unusual for a transit agency to request additional information or documentation about specific costs, particularly when working with contract service providers and consulting firms.

One alternative to holding up an entire invoice until one problematic issue is resolved would be for the transit agency to adopt a policy of paying the uncontested portion of the invoice while seeking additional justification or correction from the contractor for disputed amounts.
CONCLUSION

Senior transit executives don’t need to be procurement experts, but they do need to understand the basic issues and appreciate the important nuances of the process.

When managed successfully, good procurement practices are good business practices that:

- lower costs
- improve safety
- increase quality and efficiency
- enhance a system’s reputation
- ensure transparency and fairness
- reduce disputes with suppliers

These benefits can earn the confidence and appreciation of the board, the supplier community, the media, and the public.

Public transportation agencies that master the business disciplines required for effective procurement will reap increasingly valuable rewards. A transit executive must make this a priority—when developing the agency’s strategic business plan and budget, and in the career development of all agency staff.

MORE THAN $18 BILLION
Amount spent on public transit capital investments.*

NEARLY $13 BILLION
Amount spent on products and services by public transit agencies.*

$4.4 BILLION
Amount spent on new public transit passenger vehicles.*

* All figures are based on 2012 data.
USEFUL REFERENCES

Resources

FTA Circular
The circular, which is updated at regular intervals, is the “must-have” resource for federal procurement rules. It describes the procurement standards and requirements that transit agencies must meet under the Common Grant Rule (found in the Code of Federal Regulations) and under federal transit law.

Procurement System Self-Assessment Guide
The guide, which was developed by FTA, describes the most important deficiencies identified by the Procurement System Reviews. It also provides a tool that transit agencies can use to test their own performance in key areas.

Best Practices Procurement Manual
The manual is a compilation of the public transportation industry’s best practices. First published by FTA in 1996, new topics and examples are added regularly by a task force of transit agency procurement managers, industry representatives, and FTA staff.

Board Member Guide
APTA publishes “Transit Procurement: A Guide for Transit Board Members.” The guide is designed to help transit agency boards understand the procurement process and their role in it. Topics include board review of awards and change orders, criteria for board involvement in the acquisition process, and the use of different procurement methods.

NTI Training Courses
FTA sponsors training courses for transit agencies through the National Transit Institute (NTI) at Rutgers, the State University of New Jersey. The courses, which are free of charge to all FTA grantees, are highly interactive and cover a wide range of procurement topics including:

- Overview and orientation of transit procurement for senior leaders
- Basic cost and price analysis and risk management
- RFPs and competitive contract negotiations
- Contract administration
- Disadvantaged Business Enterprises

Websites

American Public Transportation Association (APTA)
www.apta.com

Federal Transit Administration (FTA)
www.fta.dot.gov

National Transit Institute (NTI)
www.ntionline.com

Federal Highway Administration (FHWA)
www.fhwa.dot.gov

Federal Railroad Administration (FRA)
www.fra.dot.gov

U.S. Department of Transportation (US DOT)
www.dot.gov

U.S. Small Business Administration (SBA)
www.sba.gov
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