U.S. public transit agencies spend a significant amount of money to buy transit service from private firms or other public agencies. Proponents argue that contracting saves costs and promotes efficiency; past empirical studies point to cost savings in the range of 10%-40% per unit of contracted service. This presentation begins with a careful examination of these analyses, showing how they have been flawed by lack of data availability and consistency, concerns about endogeneity and selection bias, and limitations of conventional statistical approaches. Then, it turns to results of the application of advanced statistical analysis to a unique data set of over 400 U.S. public transit agencies from 1992 to 2000. The method incorporates twice as many explanatory variables as previous studies, including degree of privatization, system characteristics, local labor markets and governance structure. This offers new insight into the ways in which the cost efficiency of service contracting varies with the institutional and physical characteristics of transit agencies.

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