

Urban Rail Mass Transit Financing Options

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INTRODUCTION

TDRI was commissioned by PADECO Co., Ltd. of Japan to provide supporting services for the Study of Urban Rail Transit Financial Options which was funded by the Overseas Economic Cooperation Fund of Japan (OECF). TDRI submitted the final report to PADECO in December 1996 which covered the following issues:

- Financing Sources of Bangkok Rail Mass Transit Projects:
 - General Government Revenues
 - Government Loans
 - Private Sector Concessions
 - Commercial Loans
 - Official Development Assistance
- Factors Affecting the Development of Urban Rail Mass Transit:
 - Economic and Social Conditions
 - General Budgets and Special Budgets
 - Special Taxes and Government Fees
 - Subsidies and Fiscal Loans
 - Tax Collection
 - Land Development
 - Ways to Change Perceptions that Mass Transit is a Poor Person's Means of Transportation
 - Requirements for Railways to Receive Broad Support in Urban Areas
- Conclusion & Recommendations

FINANCING SOURCES OF BANGKOK RAIL MASS TRANSIT PROJECTS

At present, there are three urban rail mass transit projects being implemented in Bangkok. They are:

1. Bangkok Transit System (Tanayong Project or BTS);
2. Metropolitan Rapid Transit Authority Initial System (MRTA Project); and
3. Bangkok Elevated Railways Transit Systems (Hopewell Project or BERTS).

The financing sources for these projects were made known to us in interviews with their executives and from the companies' official reports.

General Government Revenues

The government's contribution in the three projects, though classified as "general revenue," is in cash and in kind. The cash contribution is significant in the MRTA Project in which the government will provide equity capital to MRTA, a state-owned enterprise, and some forms of cash subsidy. Details of the subsidy have not been decided upon, but fares are expected to be set such that the Project will need government subsidies to be financially feasible.

The other two projects will not receive direct cash subsidy from the government, but under the terms of the Build-Operate-Transfer (BOT) concession granted to the two private companies, they are allowed to utilize public land. In the case of Tanayong, the Bangkok Metropolitan Administration (BMA) has sought permission from the central government for Tanayong to use a 64,000 square-meter site at Mor Chit as its depot for workshop and maintenance facilities. Similarly, Hopewell received the right to commercialize large plots of land owned by the State Railway of Thailand (SRT) throughout the 30-year concession period. About 1,000 rais of land on Rama IX road was expropriated by the government for use by MRTA as its depot and head office. Commercial development is also planned for the site.

Government Loans

Only the MRTA Project will involve government loans, most of which will be in the form of MRTA bonds floated with a government guarantee. For civil works investment in particular, 40 percent of MRTA's borrowing is to be from local sources, most of which will be in the form of government-guaranteed bonds.

Private Sector Concessions

All three projects have some element of private sector concessions. The Tanayong Project and the Hopewell Project are concessions given to private companies on the BOT basis for the entire project, which include civil, electrical, and mechanical works. In the MRTA Project, MRTA is responsible for civil works, including underground structures, a depot, track works, and lifts and escalators. The electrical and mechanical works, on the other hand, will be undertaken by private firms through a BOT concession contract of 30 years. The private responsibility covers the supply of rolling stock, signaling and telecommunication, power supply (mainly for the electrified trains), automatic fare collection, and equipment for the depot. In return, the concessionaire will share fare revenue with MRTA.

Commercial Loans

Commercial loans feature prominently in the Tanayong and Hopewell Projects. About 60 percent of investment in the Tanayong Project will be financed through commercial loans, 32 percent coming from local commercial banks, and the rest from foreign sources. Kreditanstalt fur Wiederaufbau (KfW), the German export credit bank, is arranging a syndicate of international lenders for a large portion of the US\$ loans. International Finance Corporation (IFC), the private sector arm of the World Bank, will also participate in extending a senior loan and in providing some equity capital to the Project.

Similarly, the Hopewell Project will receive financing from foreign sources through KfW and the Export Credits Guarantee Department (ECGD) of the United Kingdom, as Siemens and other German firms will supply rolling stocks, and a group of British manufacturers, led by Balfour Beatty Company will supply railway track.

The MRTA Project will utilize some commercial loans from local financial institutions, but the share will not be significant.

Official Development Assistance (ODA)

Only the MRTA Project is expected to benefit from ODA. About 60 percent of the total Bht. 69.64 billion cost of the civil works will be financed through concessionaire loans from OECF.

So far, aside from financing sources listed above, there has been no serious discussion on other financing sources. The only exception is the leasing method proposed by a consultant to MRTA on operating the system. Leasing is believed to lower the cost of financing transit equipment through lower finance charges and international tax advantages.

FACTORS AFFECTING THE DEVELOPMENT OF URBAN RAIL MASS TRANSIT

There are several factors that could have notable influences on urban rail mass transit development. These are discussed in relation to the Thai case below.

Economic and Social Conditions

The economic and social conditions having great impact on the decision to implement the three rail mass transit projects in Bangkok, can be described in terms of figures in Tables [1](#), [2](#), [3](#) and [4](#). Thailand has enjoyed high GDP

growth rates of more than 8 percent during the past years while inflation rates are relatively low at less than 6 percent. Exports increased every year at double-digit rates through 1995, thus helping to maintain a positive balance of payments. The economic boom has brought along many undesirable conditions, especially severe traffic congestion and air pollution. As environmental and traffic problems are getting worse, the people of Bangkok are strongly in support of the development of mass rapid transit systems for the BMA. The Hopewell Project was initiated first in late 1990, followed by the Tanayong Project in 1993, and the MRTA Project in 1996.

General Budgets and Special Budgets

Budgeting philosophy

The budgetary process in Thailand reflects a rather conservative approach of planned government spending. In fact, the process has resulted in fiscal surpluses for the last 8 years. It can be described as a top-down, revenue-based method of budgeting, with built-in mechanisms for controlling excessive expenditures and debt creation.

Government budget preparations are initiated by the Bureau of the Budget, following the guidelines given in the five-year National Economic and Social Development Plan, and policies of the political parties in power. The budget level in each year is normally set jointly by the Bureau of the Budget, the Ministry of Finance, the National Economic and Social Development Board (NESDB), and the Bank of Thailand. Basically, the most important factors determining the budget level are expected government revenue, debt burdens, and some fundamental economic objectives such as economic stability, resource allocation, and income distribution. After the Cabinet approves in principle the budget size proposed by these agencies, it is used as a framework within which all government agencies and state enterprises will prepare their own detailed budgets. The Cabinet then considers and approves the detailed budget before sending it to the Parliament for approval.

The House of Representatives deliberates on the proposed budget in three readings by setting up a committee to scrutinize the budget contents. While any change in the budget can be made by the House of Representatives, the total amount of the proposed spending cannot be increased. There are also certain ceilings specified by the law on some items, notably debt financing. Budget approved by the Parliament also requires a consent by the Senate before the budget is enacted.

Line-item budgets were adopted in 1959, but were replaced by the “Planning Programming Budgeting System” (PPBS) in 1982.

It should be noted that government budgets as percentage of GDP in Thailand have gradually increased over time, and at present the percentage is about 18 percent which is relatively low compared with other developing countries in Asia.

Necessity for a special budget account

If “special budget” means planned spending from sources other than the “normal budget,” then government spending from the so-called “extra-budgetary funds” or “revolving funds” in Thailand can be classified as a special budget. These funds are not subject to the regular budgetary process described earlier. In most cases, they are neither monitored nor evaluated by the Bureau of the Budget. They are grouped into three types:

- a) Primary Funds: The funds consist of contingency reserves, special treasury reserves, donations, foreign loans and grants, and receipts by government hospitals and schools;
- b) Revolving Funds: There are hundreds of these funds administered by various agencies for specific purposes, basically for administrative flexibility;
- c) Special Funds: These are funds set aside for some special economic and social objectives. They are mostly run by inter-agency committees, headed by either the Prime Minister or designated ministers. The main aim of these funds seems to be to provide subsidies to reduce political dissatisfaction. A good example is the Oil Fund, which was utilized to keep the retail prices of petroleum products at low levels during the oil crises.

Altogether, expenditure from these extra-budgetary funds amounts to less than 5 percent of the normal budget. Though this figure is not considered significant, it has been criticized as “being beyond the control of the government—

through the Ministry of Finance,” and thus could lead to “a lack of fiscal discipline.” In the past, it was easy to set up such a fund, as it required only Cabinet approval. However, because of fear of poor control, it now requires a law enacted by the Parliament, which is a time-consuming process.

In addition to revenue from occasional budget allocation, these funds are financed by specific or earmarked taxes, levies, and fees. Three reasons explain the existence of these extra-budgetary funds:

1. Some funds have been established in order to avoid fiscal rigidity and strict disbursement procedures imposed by monitoring and controlling authorities. They are normally regarded as another source of funding which is supplementary to the normal annual budget, and which helps to ensure administrative flexibility and convenience.
2. Sizable funds are used as sources of subsidies, the amounts of which can vary in each year depending on the changing of economic and political circumstances. Therefore, they cannot be allocated-annually in advance through the regular budgetary process. In a sense, these funds give some degree of political expediency to a government which lacks political courage in following economic reality, e.g., allowing domestic oil prices to rise with world prices.
3. Specific earmarking is designed for some of the extra-budgetary funds to ensure continuity and political non-interference. Perhaps this point reflects the fact that there is not enough trust in political stability and continuity.

It should be noted that the second reason has become less significant in recent years as a result of efforts to depoliticize some controversial economic issues. For example, since the early 1990's, retail oil prices have been subject to less control, thus less need for government intervention and the oil fund. Most of the existing funds for subsidies are in the area of agricultural price support.

Special Taxes and Government Fees

Past evolution of the current system of taxes and fees

The government relies heavily on taxes for its revenue earnings. Tax revenue accounts for over 90 percent of total government revenue (see [Table 5](#)). About 60 percent of the total revenue is derived from indirect taxes, the main types of which are excise tax, specific sales tax, value-added tax, and import duty. Direct taxes, on the other hand, contribute about 30 percent to the total revenue. Over half of the direct tax revenue comes from corporate income tax. Other revenue sources include profit sharing from state enterprises—about 5 percent, and sales, charges, and others about 4 percent.

In recent years, revenue from indirect taxes has consistently contracted its share because the government has lowered import and export taxes in order to liberalize trade and promote exports. Also, as the economy grows and becomes modernized, corporate and personal income taxes increase in significance.

At the local government level, there are three categories of taxes which contribute to local government revenue.

- *Locally-levied Taxes:* They are imposed and collected by local governments and include building and land tax, signboard tax, and animal slaughter tax;
- *Surcharged Taxes:* These are tax surcharges imposed and collected by the central government on top of what the central government itself has imposed and collected. The surcharged revenue is earmarked for remittance to local governments. They include surcharges on business taxes (value added tax and specific sales tax), liquor and beverage excise taxes, petroleum excise tax, entertainment tax, gambling tax, and cement excise tax;
- *Shared Taxes:* These are local taxes collected by the central government, and the revenues are shared by the central government as collection costs. They include motor vehicle tax and an additional tax on rice exports, which has not been collected since 1987.

Revenue from these three types of taxes account for more than 60 percent of the total local government revenue. Among the three, the surcharged taxes are the most important in terms of revenue-generation. Another source of local government revenue is property income, fees and fines, income from some public utility services, and other miscellaneous income.

The following observations can be made on taxes and revenue of local governments.

1. In fiscal matters, local governments have been assigned a rather passive and small role in imposing and

collecting their own taxes. Those taxes actually imposed and collected by them have very low rates which are uniform across all local governments in the country.

2. The role of local governments in terms of public expenditure has been much less significant than that of the central government. In the past two decades, total expenditure by all local governments including the Bangkok local government has been less than 10 percent of the central government's budget.
3. Local governments have relied heavily on the central government not only in tax collection but also in receiving grants and loans through the Ministry of Interior. It is evident that local governments in Thailand still depend heavily on the policy directions and judgments of the central government.

The relation between central government taxes and local taxes is given in [Table 6](#).

However, some changes have been made in recent years to decentralize fiscal power in Thailand. A set of laws now under consideration intend to improve some of the locally-levied taxes by transforming them into a proper property tax, the rates of which can vary from locality to locality. Local governments will also be free to set their own rates of fees and fines. Their role should be strengthened in charging for infrastructure investment from property owners and land developers who benefit from public projects.

Earmarking or general revenue

Most tax and non-tax revenue in Thailand is regarded as non-earmarked general revenue which can be spent in any category of the budget. The only exception is those tax surcharges and fees which can be earmarked for specific purposes. In the case of earmarking, the normal practice is to set aside those revenues in extra-budgetary or revolving funds as explained earlier.

Another type of earmarked revenue are surcharged and shared taxes collected by the central government for local governments. There is a set of rules and formulae agreed upon in advance for the allocation and distribution of this revenue among different local governments. For some political and administrative reasons, this arrangement is part of the “normal budget” under the responsibility of the Ministry of Interior.

Subsidies and Fiscal Loans

Subsidies from the government in Thailand are significant in the fields of public transport involving Bangkok buses and national railways, electricity and water supply in rural areas, and some agricultural production such as soybean, milk, and a few other crops. Most subsidies are channeled through direct financial subsidies given to state enterprises which are providers of the subsidized services. Subsidies in the form of concessionaire loans are normally not frequently practiced, particularly those loans which are part of the budget. If concessionaire loans are needed, the government usually resorts to loans from certain public financial institutions, particularly the Bank of Thailand, the Bank of Agriculture and Agricultural Cooperatives (BAAC), the Industrial Finance Corporation of Thailand (IFCT), the Government Savings Bank (GSB), and the Export-Import Bank. It is also a normal practice for the Ministry of Finance to guarantee loans made by state enterprises. But in recent years, more of these loans can be secured without government guarantee.

To give a whole picture of government subsidies in Thailand, it is better to explain the following methods by which subsidies are provided.

1. Subsidies are financed through the extra-budgetary funds, which were described earlier, e.g., the oil fund, the rubber fund, and the farmer's aid fund.
2. Budget allocation is made for subsidies to be distributed to some loss-making state enterprises whose service prices are controlled by the government. In recent years, interest subsidies and land expropriation are other financing methods to lesson investment burdens of some state enterprises operating public transport projects.
3. Cross-subsidization among the three public electricity authorities enables rural people to pay for electricity at the same rates as those in Bangkok, even though the cost of providing electricity in rural areas is higher.
4. Indirect subsidies are given in the form of certain tax exemptions or reductions which are part of the privileges granted by the Board of Investment to private investors.
5. Low-interest loans are also available from the Bank of Thailand, IFCT, BAAC, and GSB for some special and specific purposes.
6. Some ministries operate loan and grant programs to promote certain activities. For instance, the Ministry of Interior annually provides loans and grants to local governments for investment in some infrastructure projects.

In the area of public transport where subsidies are prevalent, there has been a proposal for compensation to be made by the government to state enterprises only for the so-called "Public Service Obligations (PSO)." These obligations involve services deemed necessary for the public, thus are subject to price control which could lead to financial losses by the providers.

The government can borrow from local and foreign sources to either finance its annual fiscal deficits or invest in public projects. Local borrowing can be in the form of bonds with 5 to 20 year maturity, short-term treasury notes, and promissory notes held by the GSB with 10 year maturity. Foreign loans can come from international institutions such as the World Bank and the Asian Development Bank, foreign government institutions such as OECF and the United States Agency for International Development (USAID), and private institutions.

However, there are certain limits to the amount the government can borrow in each year as specified in the Budget Procedure Act. The Cabinet also sets a ceiling on annual foreign borrowing by all government agencies, including state enterprises. Moreover, a specified debt-service ratio is used as another line of limit to regulate public foreign borrowing.

Tax Collection

There is no serious study on the tax collection ability in Thailand. Several factors affect this ability differently in different countries. In general, these factors include:

- The types of taxes imposed as most indirect taxes are easier to collect than direct taxes;
- Legal and administrative tax systems;
- Integrity and efficiency of tax officials; and
- Tax payers' conscientiousness in paying their tax obligations.

There are indications that the ability to collect taxes in Thailand at the central government level has improved over time. Tax revenue as a percentage of GDP rose from 14 percent in 1985 to 17 percent in 1995. A number of improvements have been made on tax registration, personnel development, and information and services given to taxpayers. Collection costs as a percentage of tax revenues, as estimated in the 1980's for the Revenue Department, the Excise Department, and the Customs Department were in the range of 1 percent or less, which could be considered relatively low. Unfortunately, there is no data available on potential tax yields, which can be compared with actual tax yields to indicate another dimension of tax collection ability.

It should be noted that in 1992 Thailand introduced the value-added tax (VAT), which is supposed to be one of the most difficult taxes to administer. Records show that the VAT operation in Thailand has not caused serious problems in terms of revenue collection. This supports the conclusion that tax collection ability of Thailand's central government is not too far behind more advanced countries.

However, a number of businesses, both Thai and foreign, still face problems in dealing with Thai tax authorities. These problems include delays in customs clearance and VAT refunds, official corruption, unclear interpretation of some tax codes, and various red-tape regulations.

Local governments, on the other hand, are relatively weak in administering taxes. Even the BMA, which is the largest and most experienced among all local governments, cannot handle tax collection competently. This is reflected by the fact that most of their tax revenue has to be collected by the tax agencies of the central government. There is no clear evidence, but informal interviews indicate that actual yields from locally-levied taxes, particularly building and land taxes, are much less than their potential yields.

It has been argued that local governments have little incentive to impose new taxes and collect existing taxes because they prefer to receive grants and subsidies from the central government. Fear of losing political popularity and weaknesses in organizations and staff are perhaps behind this type of attitude.

For property-based taxes in particular, most local governments are not in a position to perform satisfactorily. To be effective, the taxes need proper and efficient property value assessment, which most local tax officials lack. They also require strict enforcement and practical penalties, which are absent in most cases.

As mentioned earlier, there is a definite plan for fiscal decentralization, whereby local governments are expected to stand on their own feet in managing their communities. It is expected, therefore, that they will be more inclined to improve their tax collection ability when the time comes.

Land Development

Ownership forms

The Department of Land grants legal rights of ownership for private land occupied by individuals. There are four types of land titles under the Land Code 1954: N.S..4, N.S..3, N.S..3-K, and N.S..2. The N.S..4 type constitutes only about 15 percent of all private land which amounts to 160 million rai or 64 million acres. The N.S..4 land title type is generally found in urban areas and concentrated in the central region of Thailand.

Article 87 of the Land Code states that foreigners can own land in Thailand but not more than the amounts shown below.

- For residence, not more than 1 rai per family;
- For commerce, not more than 1 rai;
- For industry, not more than 10 rai;
- For agriculture, not more than 10 rai;
- For religion, not more than 1 rai;
- For public foundation, not more than 5 rai; and
- For cemetery, not more than 0.5 rai per family.

However, there needs to be an agreement on the land right issue between Thailand and the countries of which foreigners hold nationalities so that the rules given above apply. There was such the agreement in the past but was abandoned in February 1971. Since then, foreigners have not been able to own land in Thailand.

Percentage of public land

Public land covers approximately 202.5 million rai that are mostly of forest reserves. As much as 40 percent of public land is occupied by squatters, especially in urban areas. The government has adopted several measures to deal with the problem but achieved limited success.

Government control and regulations

The control of land use has been enforced by the government especially in urban areas to put some restrictions to the usage, height of the building, frontage access area, floor space allocations, etc. For the Bangkok Metropolis, for example, major restrictions are imposed on areas within the "Inner City Area of Rattanakosin," the "Green-Belt Area," and areas surrounding the Second Bangkok International Airport, military installations, and specially designated zones.

For each city, the Department of Town and Country Planning of the Ministry of Interior has issued a "Town Plan," which is updated every five years. On the Plan, town area is divided into zones and painted with different colors to indicate their specific uses. There are altogether eleven colors representing eleven areas of controlled usages, that is, light-density residential, medium-density residential, heavy-density residential, commercial, industrial and warehousing, rural and agricultural, open and environmentally conserved, educational, preserved rural and agricultural, religious institutions, and government buildings together with public utilities.

The government can expropriate private land as it wishes but must pay "market" price to the private owner. Several mega projects in Bangkok often find the need to have additional land during construction. The Hopewell Project has a clause in the contract stating that the government shall use its best efforts to acquire at the company's expense all additional land to the extent required.

Bangkok has seen a decline in real estate business for several years as can be seen in [Tables 7](#) and [8](#).

Ways to Change Perceptions that Mass Transit Is a Poor Person's Means of Transportation

The railways in Thailand need a totally new image in order to change perceptions that rail transport is for poor people. Rail services must be greatly improved and of qualities comparable to those of other developed countries. Users would look for better services in terms of speed, safety, reliability, frequency, convenience, and comfort. Thais are getting richer and can afford to pay higher prices for rail services.

SRT has many constraints and limitations, and cannot be fully accountable for providing such services necessary to change the image. Being a state-owned enterprise, SRT is strictly controlled on investment and price setting. It is difficult for SRT to propose new service products to cater to businesspeople and middle-income customers and charge relatively high prices. The current narrow gauge, together with its rolling stocks, are the big obstacles to creating a new image, because they represent the past, allowing only narrow coaches to run, and lacking competitive hauling capacity. To change the perception, the following items will have to be considered:

- Investment from the government to build a “standard gauge” track adjacent to SRT's existing track. The length and location of the new track will be determined according to demand and priority;
- Investment from the private sector to acquire locomotives, rolling stocks, etc., so as to become rail operator(s) using the new standard gauge track built by the government and managed by SRT;
- Continued train services on the narrow gauge track at lower fares;
- Investment from the government to convert the existing narrow gauge into the new standard gauge track so as to have at least two standard gauge tracks running side by side;
- SRT to manage both tracks and may choose to be among the operators as well.

This is actually a “road transport model” where the government builds and maintains the infrastructure, and leaves the role of operators to the private sector. New standard gauge track will cost some 20 percent more than the narrow gauge but can open a new era in Thai railway. Standard gauge locomotives and coaches are much easier to find in the market, and at the prices about 50 percent to 75 percent of those of the narrow gauge. The coaches are wider, more stable and comfortable, and can be built double-deck as well. The wider track is stronger and capable of handling double-stack-high-cube container wagons so that the rail transport of freight can be very competitive. The new standard gauge railway can change the image and the future of Thai railway in the next century.

Requirements for railways to receive broad support in urban areas

There are many requirements behind supportable railway development in urban areas such as Bangkok. They are listed here, but not in order of importance:

- Extensive railway networks combining the main lines with urban mass transit systems;
- Convenient means of getting from residence to train stations and to the office;
- Quality train services with sufficient frequency; and
- Better value for the prices paid for rail services.

Bangkok is heading toward fulfilling these requirements by having three urban rail mass transit systems being implemented, that is, the BTS, MRTA, and BERTS. If the mainline railway gets a new image as described earlier, it would definitely compliment the three mass transit projects which are being built using standard gauge.

CONCLUSION & RECOMMENDATIONS

It is envisaged that in financing future urban mass rapid transit (MRT) in Thailand from sources such as earmarked funds, property taxes, etc., the following comments might be of some use.

1. In the past, the government used a public lottery to raise special or earmarked funds for construction of the new “Khum Klao” hospital at Don Muang. The lottery was created mainly for charity, and would be inappropriate for mega transport projects like MRT.
2. In BMA, approximately 6,000 million liters of gasoline is consumed each year. Raising the gasoline tax, say 20 satang per liter, will bring in 1,200 million baht, which is a small amount compared to MRT investment.
3. Raising car registration and property taxes are more difficult than raising the gasoline tax, and the results are doubtful especially if the collected taxes are to be used to finance the MRT project.

4. Commercial development of spaces at stations, billboard advertisements, etc., could generate some revenue, but not of a significant amount.
5. "Value Capture" concept is interesting and useful. Relevant state agencies such as MRTA and/or SRT could join hands with the National Housing Authority (NHA) and/or the Industrial Estate Authority (EA) to develop vacant land together, and gain profit to help fund the MRT project. Both NHA and EA can legally buy private land and develop it for residential and commercial uses. These state agencies can discuss and agree on the sharing of profit in connection with the construction of MRT lines to serve the developing areas.
6. Local governments must be involved with the MRT projects of their cities. They need to come up with funds to help finance MRT investment. The funds could be from private investors, local taxes, central government subsidies, or a combination of the three sources. Other major cities like Chiang Mai and Hat Yai will need the MRT system in the future, and should be accountable for raising funds to finance the project.
7. To help keep private cars off the roads, Bangkok must have efficient public transport with a network covering a large proportion of area. Connection and transfer among different modes, that is, SRT, MRT, buses, boats, private cars, etc., should be made convenient and affordable for average users.
8. Thailand still needs more roads and railway lines. It is the responsibility of the government, whether it is central or local, to provide funding for the construction of basic infrastructure, and give concessions to private operators to provide quality and efficient services to the public.