

# Economic Perspectives on Long-Distance Bus Services

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This report has been prepared by the economics unit of the Passenger Transportation Board as a review of economic theory and evidence relevant to long-distance public transportation in British Columbia (BC). Its purpose is to provide a literature-informed perspective to support ongoing policy discussions.

The scope of the report is focused on transportation outside the major intra-urban transit systems such as TransLink in Metro Vancouver or BC Transit in the Capital Region. The focus is on long-distance bus services across the rest of the province, particularly in rural, remote, low-density, and Indigenous communities, where mobility options are scarce and market provision alone has proven unstable.

The Board's interest in this topic stems from its responsibility for regulating inter-city bus authorizations (ICBs) under the *Passenger Transportation Act*, and from its strategic priority to enhance rural passenger transportation services. Understanding the economic rationale for public funding and reviewing how other jurisdictions organize long-distance bus services helps inform this regulatory and policy role.

## 1. Background

### 1.1 Overview of ICB services in BC

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For most of the late 20th century and into the 2010s, Greyhound was the dominant provider of inter-city coach service across British Columbia, operating long-distance routes that connected northern, interior, island, and cross-border markets. By the mid-2010s, ridership had been falling on many corridors, and in 2018 the company announced it would discontinue service across western Canada. Operations ceased on October 31, 2018, severing many long-standing links for rural communities.

The province began its response both before and after Greyhound's service withdrawal. One major strand of action centred on Highway 16 (Prince George-Prince Rupert), a corridor associated with the "Highway of Tears" and the disproportionate victimization of Indigenous women and girls, where lack of reliable and safe transportation had been identified as a risk factor. The province's Highway 16 Transportation Action Plan committed multi-year funding to expand inter-community transit (delivered with BC Transit and local partners), add shelters and safety features, and improve travel information along the corridor.

BC Transit's Highway 16 plan documents a cost-sharing model that departs from typical practice: the province covers 100% of capital and two-thirds of operating costs, with participating local governments and First Nations covering the remaining third. This agreement recognizes that long-distance, low-density routes generate benefits that extend beyond any single municipality. At the same time, the broader context of violence and missing persons along this corridor remains part of the public safety case for sustained service.

When Greyhound left western Canada, the province launched BC Bus North in June 2018 to preserve essential long-haul links in northern BC as an interim public service operated under contract (Pacific Western/Diversified). Initial fares were kept low to support access, and early ridership was closely monitored to calibrate service frequency. During 2019-2022, federal/provincial cost-sharing helped keep BC Bus North running while longer-term arrangements were developed. BC Bus North underscores the province's role in sustaining service in thin markets where commercial carriers have withdrawn.

Outside the north, several private carriers moved to fill portions of the market on a commercial basis, including Ebus in the Vancouver-Kamloops/Kelowna corridors and Rider Express on the Vancouver-Interior-Alberta spine. On Vancouver Island, Tofino Bus Connector shifted to seasonal operation due to winter losses, noting the lack of operating support for inter-city services during the off-season. These developments underscore a pattern that is consistent with economics: private provision persists in markets where demand is thicker and seasonality manageable, while thin, remote corridors struggle without public backing.

From 2023 onward, the province consolidated its northern approach through an agreement with the Northern Development Initiative Trust (NDIT), creating a stable funding framework for BC Bus North and a network of northern community shuttles that connect smaller communities to regional hubs. A \$5 million commitment announced in May 2023 extended support through 2026/27, formalizing a public backbone where commercial operation is least viable.

In parallel, regulatory policy evolved. The Passenger Transportation Board (PTB) modernized its minimum route frequency (MRF) approach for ICBs, shifting from case-by-case amendment approvals toward a less restrictive rule. The MRF now states that operators may reduce frequency without a formal amendment application so long as they maintain “active service” (at least one scheduled trip per month, or within the defined season) and meet notice requirements. This was intended to balance flexibility for operators with a baseline level of public service.

Finally, federal fiscal instruments relevant to transit were renewed on longer horizons. The Canada Community-Building Fund (CCBF, formerly the Gas Tax Fund) was re-upped 2024-2034, providing predictable capital transfers to local governments, including a public transit category, while the new Canada Public Transit Fund (CPTF) allocated over \$189 million over ten years, starting in 2026, to BC Transit for capital renewal and modernization across 33 systems. Notably, these tools largely fund capital for local and regional transit – they do not directly underwrite operating losses of private inter-city carriers, which helps explain the province’s targeted operating support in the north.

Overall, what emerges in the ICB market in BC is a targeted-subsidy/market-mix, particularly where equity and safety needs are paramount and demand is structurally thin (notably in rural and remote communities). In the north, the province directly funds operations through BC Bus North and community shuttles. Where demand is stronger, private carriers operate without routine operating subsidies, but can scale back when demand weakens, now with more regulatory flexibility under the PTB's updated policy. Federal programs mainly strengthen the capital base of local/regional transit.

The status quo leaves room for an overall improvement in funding models to strengthen economic efficiency, service frequency and quality, safety and equity, and overall social welfare of the population relying on the ICB and long-distance public transportation.

## **1.2 Scope and terminology**

This survey uses two related but distinct terms:

**Inter-city Bus (ICB)** refers specifically to passenger services operated under Special Authorization – ICB licences issued by the Passenger Transportation Board. These are typically run by private carriers (e.g., Ebus, Rider Express) and form a narrow focus of this report, since they fall directly within the provincial inter-city regulatory framework.

**Long-distance public transportation** is used in a broader sense to describe all scheduled or demand-responsive public transport connecting communities beyond urban transit boundaries. This includes publicly funded or contracted services such as BC Bus North, Northern Community Shuttles, BC Transit's Highway 16 routes and targeted medical or health shuttles. These services are relevant because they interact with, and in some cases substitute for, licensed ICBs.

While the Board's regulatory mandate applies specifically to ICBs, the economic theories and international case studies discussed in this report concern long-distance public transportation more generally, of which ICBs represent a special, regulated case within BC. Where appropriate, the report refers narrowly to ICBs, and more broadly to long-distance public transportation when considering the wider context of mobility in low-density regions. This distinction is intended to avoid confusion while

acknowledging that residents experience these services as part of a single continuum of options for reaching destinations outside their home communities.

## 2. Economic Theory

In this section, relevant economic theory is surveyed to clarify why long-distance public transportation services, especially those in low-density regions are prone to market failure, and why public intervention can be both efficient and equitable.

The concept of increasing returns to scale explains why services with high fixed costs and low marginal costs tend toward under-provision without coordinated investment. Mohring effect shows that higher service frequency and better service quality benefits all riders, creating positive spillovers that private operators cannot capture. The theory of fiscal federalism clarifies which level of government is best positioned to fund and coordinate such services when their benefits extend across jurisdictions. Lastly, corrective taxation and double-dividend arrangement provide a fiscal rationale for using environmentally motivated revenue or revenues from corrective taxes (e.g., congestion, toll, pollution charges) to support socially valuable but commercially unviable services.

These theoretical insights lay the foundation for assessing BC's current approach and for comparing it with how other jurisdictions organize and finance similar public transportation systems.

### 2.1 Increasing returns to scale and market failure

Public transportation, including ICBs, exhibits the classic features of an industry with high fixed costs and low marginal costs.<sup>2</sup> Buses require capital investment in fleets, depots, insurance, and compliance with safety regulations, but once these are in place the cost of adding an additional passenger or trip is comparatively low. As output (or

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<sup>2</sup> In economics, the marginal cost of a service refers to the additional cost incurred from producing or providing one more unit of output. In public transportation, this typically means the cost of carrying one additional passenger when the vehicles, staff, and infrastructure are already in place.

the level of service) increases, average costs fall, which is a case of increasing returns to scale.<sup>3</sup>

Jansson (1980) formalized the idea in the context of bus services in a single-line bus optimization model. He demonstrated that, left to the market, operators tend to undersupply frequency and oversupply vehicle size, producing excessive waiting times and lower social welfare. This divergence from the socially optimal outcome is an example of market failure. For sparsely populated areas like northern or interior BC, where fare revenues cannot cover fixed costs, the result is withdrawal by private carriers, even though the social benefits of access to healthcare, education, and safe mobility are substantial.

William Baumol's concept of the "cost disease" (Baumol and Bowen, 1966; Baumol, 1993) provides another related perspective.<sup>4</sup> Certain transport services can be labour intensive and cannot fully or quickly benefit from productivity growth in other sectors. As wages rise economy-wide, transport providers must raise wages to retain workers, but they cannot easily raise productivity in parallel. Unlike in IT or manufacturing, a bus route still requires the same number of drivers and staff regardless of technological progress elsewhere. This means costs rise faster than output, and operators cannot fully offset these rising costs by increasing fares or adding passengers, particularly in thin markets. Over time, this leads to rising relative costs for services like ICBs.

## 2.2 The Mohring effect and network externalities

Herbert Mohring's seminal paper (Mohring, 1972) introduced what is known as the Mohring effect: in public transport, greater frequency not only benefits the additional passengers who are served, but also reduces expected waiting times for all riders, creating a positive network externality. Because operators cannot charge riders for

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<sup>3</sup> Some authors use the terms "economies of scale" and "increasing returns to scale" interchangeably. It should be noted, however, that these are closely related, but not identical concepts. Increasing returns to scale is the most common cause for economies of scale.

<sup>4</sup> Baumol and Bowen argued in their book that arts, as public goods, face a structural financial crisis because the nature of their production prevents them from benefiting from the productivity growth seen in other sectors, therefore substantial public and private subsidies were essential for the survival of this type of public goods.

these reduced waiting times, they have no incentive to supply the socially optimal frequency, and this leads to deteriorating waiting times and service quality and dampens demand in the long run.

In the ICB context, this effect helps explain the vicious circle observed across many jurisdictions in North America. As operators cut services, waiting times grow, reliability falls, and potential passengers abandon the system becoming more attached to personal vehicles, which further erodes revenues. On the other hand, a virtuous circle is also possible if public subsidies support higher frequency: reduced waiting times attract riders, fare revenues increase, and service quality improves, which in turn helps demand grow in the long run. Subsidy thus internalizes the externality, aligning private provision with social welfare.

## 2.3 Fiscal federalism

The rationale for higher-level government involvement in some sectors is clarified by fiscal federalism theory. Charles Tiebout's seminal (1956) "voting with your feet" model suggested that local governments can efficiently supply regional public goods that are highly localized, since residents sort into communities that match their preferences. But the model breaks down when goods produce spillovers across jurisdictions or when residents cannot simply move to access services. Long-distance public transportation (including ICBs) is a good example: its benefits, such as safe travel, access to regional hospitals and education, economic connectivity, extend across municipal boundaries, and the populations most in need (Indigenous, low-income, rural) cannot "vote with their feet" by relocating.

Richard Musgrave (1959) and Wallace Oates (1972, 1999) built the modern framework of fiscal federalism, which remains arguably the most influential lens for thinking about who should finance and deliver different types of public goods. Musgrave articulated the three core branches of public finance: allocation (efficient provision of goods and services), distribution (equity across regions and populations), and stabilization (macroeconomic balance). His work made clear that not all public goods are "local" in

character, and that higher tiers of government should step in when local provision leaves gaps.

Oates further developed this theory through the decentralization theorem, which argued that local governments are well suited to fund goods with strictly local benefits, but that when a good produces spillovers across multiple jurisdictions, higher-level governments must take responsibility. His 1999 Journal of Economic Literature survey distilled decades of economic theory and empirical work into a clear principle: efficiency and equity both require that higher-level governments finance services whose benefits extend beyond municipal boundaries.

Long-distance public transportation fits this logic well. In the case of BC, the benefits of safe, reliable bus service, such as access to regional hospitals and schools, safer travel along corridors, and economic linkages across sparsely populated regions, are not confined to any one municipality or regional district. At the same time, the local tax base in small northern communities is too narrow to sustain the high fixed costs of service. If each community were left on its own, the result would be systematic under-provision, leaving rural residents isolated and equity concerns unaddressed.

The current institutional landscape in BC only partially reflects Oates's reasoning. While the province funds BC Bus North through the NDIT, and the federal government provides capital transfers through the CCBF and CPTF, these measures remain fragmented and ad hoc. What has not yet occurred is a systematic recognition that long-distance bus service is a regional public good requiring fiscal and administrative support from higher tiers of government. This lack of coordination explains the patchwork of services and uneven funding observed across the province. From a Musgrave–Oates perspective, the challenge for the BC government is how to align higher-level funding responsibilities with the actual spillover benefits of long-distance public transportation.

## **2.4 Double-dividend theory and financing options**

Economists distinguish between corrective<sup>5</sup> taxes, which minimize distortions and can improve welfare and “bad taxes”, which raise revenue while creating inefficiencies. The double-dividend hypothesis (Bovenberg & de Mooij, 1994) holds that corrective taxes on fuel, emissions, congestion, or carbon can achieve two goals at once: they improve environmental and congestion outcomes by discouraging socially costly activities, and they generate revenue that can be recycled into subsidies for socially desirable but underprovided goods. Public transportation (including ICBs), with their relatively low emissions per passenger kilometre compared to private cars, are a good example of a sector that could benefit from such revenue recycling. Aligning long-distance public transportation subsidies with revenues from corrective taxes would thus strengthen both economic efficiency and equity.

In BC, the province levies a carbon tax and fuel surcharges, instruments designed to internalize the environmental costs of emissions. If a fraction of those revenues were earmarked for long-distance public transportation, especially ICBs, the province could very well create a “double-dividend”. First, by reinforcing the environmental price signal that discourages high emission private vehicle travel; and second, by stabilizing a public transportation network that provides essential mobility to marginalized communities, especially in rural, remote and Indigenous communities where alternatives are scarce. This would also integrate climate policy goals with equity and social welfare objectives, ensuring that revenues raised from carbon or fuel pricing help to fund affordable, lower-carbon alternatives.

Importantly, this kind of revenue/expenditure linkage cannot be achieved at the municipal or regional district level. Local governments do not control carbon or fuel tax instruments, nor do they have the legislative and fiscal capacity to redistribute those revenues across large geographic regions. Only a higher-level planning agency such as the provincial or federal government, can both levy corrective taxes at scale and channel the proceeds into targeted subsidies for long-distance public transportation.

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<sup>5</sup> Another term economists use interchangeably with the corrective tax is Pigouvian tax, named after the economist Arthur Pigou.

This is the type of coordination problem that Musgrave and Oates argued higher tiers of government are best positioned to solve: aligning allocation (efficient use of resources), distribution (equity across regions and income groups), and stabilization (predictable long-term funding). In this sense, the double-dividend approach reinforces the point raised in our discussion of fiscal federalism. ICBs should not be seen merely as a local commercial service but as a provincial public good, whose sustainable provision requires long-term public commitment, guided by both economics principles and environmental policy.

Put together, these theories point to a common conclusion. Long-distance public transportation combine high fixed costs and scale economies, external benefits that markets do not internalize automatically, and regional spillovers that local governments cannot finance on their own. Environmental economics adds that corrective revenues can be aligned with equitable, lower-carbon mobility. For BC, these insights suggest that inter-community transit are best understood as a provincial public good, requiring predictable support from higher levels of government.

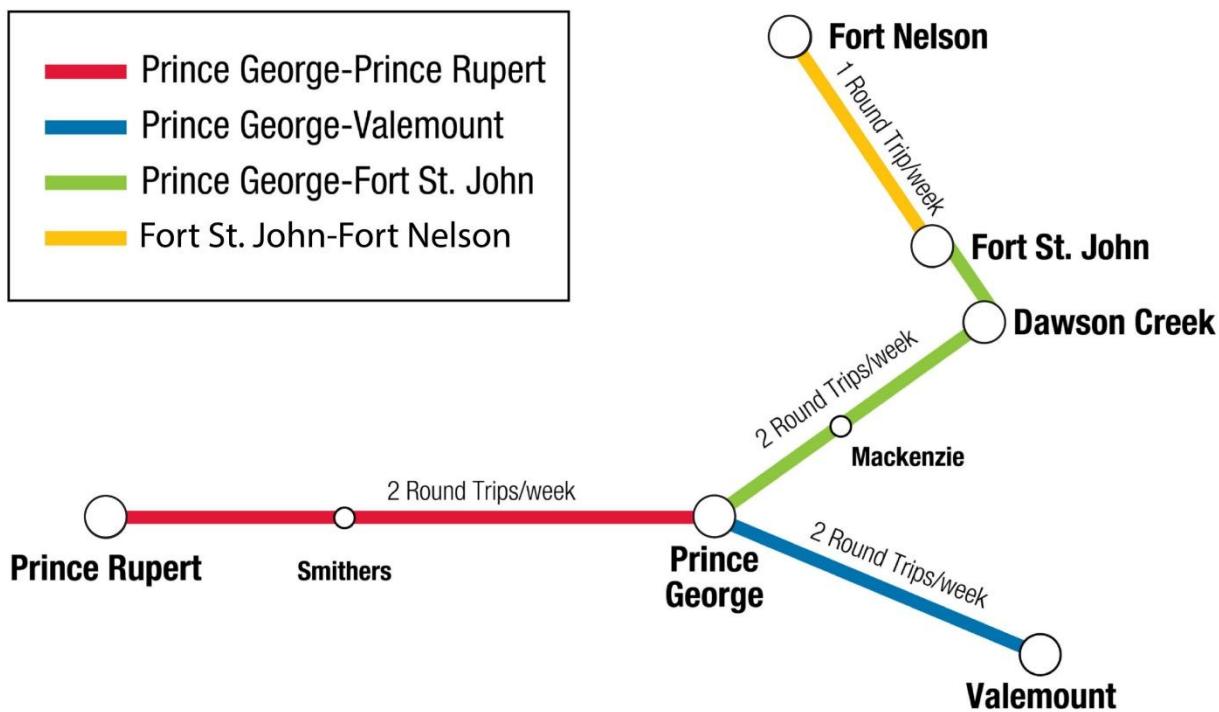
With this body of knowledge laid out, the stage is set to survey funding models and examine how other jurisdictions have designed successful systems that leverage these economic insights to sustain long-distance public transportation.

### 3. Operation Models and Funding Sources in BC

This section reviews how long-distance public transportation is currently organized and funded in British Columbia. It describes the province's mixed model combining privately operated ICBs, provincially funded services in low-density regions, and complementary transit or health-related shuttle programs. The goal is to identify how existing arrangements reflect, or diverge from, the economic principles discussed earlier, particularly those related to increasing returns to scale, network externalities, and the allocation of responsibilities across levels of government.

#### 3.1 Provincial funding for northern low-density areas

The province provides operational funding primarily in northern, low-density areas. The province funds BC Bus North (Figure 1) as the long-haul backbone for northern communities (Prince George–Prince Rupert; Prince George–Valemount; Prince George–Fort St. John; Fort St. John–Fort Nelson)<sup>6</sup>, with operations contracted to Diversified Transportation (PWT Group). Since 2018, this service has provided essential connectivity where commercial providers had left. In 2023, the province provided \$5 million to NDIT to continue BC Bus North and the Northern Community Shuttle Program through 2026/27. Meanwhile, NDIT administers the Northern Passenger Transportation Service fund and reports annual allocations to keep services running.



**Figure 1: BC Bus North lines. Source: [bcbus.ca](http://bcbus.ca).**

### 3.2 Highway 16 inter-community transit

Highway 16 inter-community transit has an equity and safety focus. BC Transit's Highway 16 services, as shown in Figure 2, operate under a specific cost-share scheme:

<sup>6</sup> Schedules and booking hosted at [bcbus.ca](http://bcbus.ca).

the province covers 100% of capital and two-thirds of operating costs, with the remainder apportioned among local governments and participating First Nations. This structure reflects the corridor's safety and equity imperatives and the reality of long-distance, low-density demand.

### Highway 16 Regional System Map

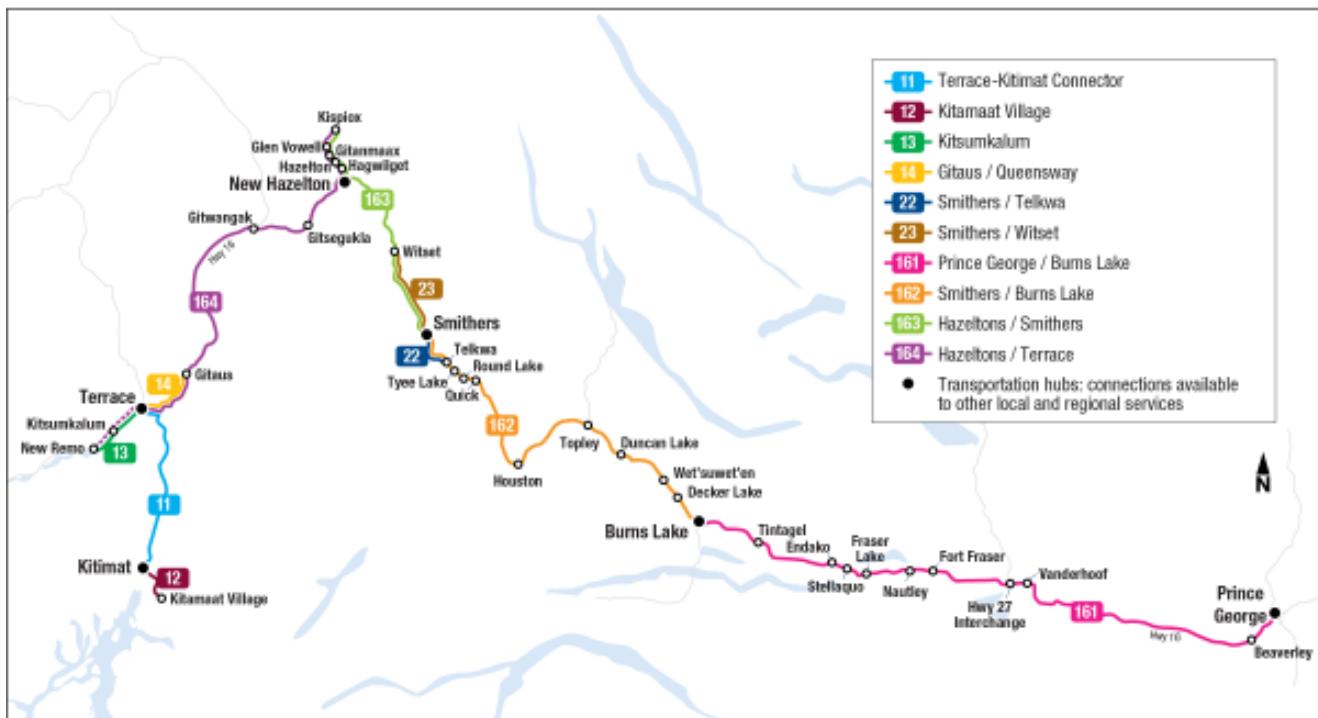


Figure 2: BC Transit Highway 16 System Map. Source: BC Transit.

### 3.3 Commercial inter-city operators

Commercial ICB operators service market-based corridors. On the southern and interior corridors, Ebus runs daily Vancouver-Kamloops/Kelowna services, and Rider Express operates Vancouver-Interior and Alberta links. Both market services adjust capacity and frequency based on demand. On Vancouver Island, the VI Connector/Tofino Bus has adopted seasonal schedules in recent years due to low off-season demand and the absence of operating subsidies, highlighting the fragility of purely commercial provision in these thin markets. The BC Ferries Connector provides integrated coach-ferry service between downtown Vancouver and Victoria as part of the Wilson's Group network.

### **3.4 Targeted medical shuttles**

Targeted medical shuttles provide health access. In BC, Health Connections is a health authority based regional travel assistance program that offers subsidized transportation options to help defray costs for rural residents who must travel to obtain non-emergency, physician-referred medical care outside their home communities. Outside Metro Vancouver, Interior Health, Island Health, and Northern Health all operate purpose-built coach services for residents traveling to non-emergency medical appointments.

### **3.5 Federal transfers**

Federal transfers have a capital focus and provide indirect support to inter-community transportation. Two federal streams shape the context. First, the CCBF provides predictable capital to local governments (including a public transit category) under a 2024-2034 administrative agreement in BC. These funds typically support municipal and regional transit infrastructure rather than commercial operations such as ICBs. Second, starting in 2026, the CPTF will provide at least \$189 million over ten years to BC Transit for capital renewal and modernization across 33 systems, improving regional networks that feed inter-city nodes but not directly subsidizing commercial operations.

### **3.6 Summary of operation and funding models in BC**

The resulting arrangement is a mixed model: a publicly funded backbone in the north, unsubsidized commercial carriers in higher-demand corridors, specialized medical and equity-focused services, and federal transfers directed primarily at capital for local transit. This combination has prevented complete withdrawal of long-distance public transportation but leaves a patchwork that is difficult to plan around, raises questions of fairness between regions, and creates inefficiencies where services overlap.

The current approach is also arguably inconsistent. For example, while northern corridors are subsidized directly, other thin markets such as upper Vancouver Island operate seasonally without support. This creates perceptions of unfairness among operators and raises questions about equity in subsidy allocation.

Operators have also raised concerns that in some corridors, subsidized public transit overlaps with licensed commercial ICB routes (e.g., Duncan-Victoria in Vancouver Island), reducing the economies of scale that private carriers require to sustain service. In thin markets, direct competition between subsidized and unsubsidized services can often be counterproductive. Because competing services rely on limited ridership pools to cover high fixed costs, parallel operation can erode economies of scale, leading to duplication of costs and weakening the sustainability of private carriers.

## 4. Lessons from Other Jurisdictions

### 4.1 Norway: rural and sparsely populated transport

Norway shares several features with BC. While the south contains large urban areas, most of the country's geography consists of non-urban regions with mountainous terrain, dispersed settlements, cold winters, and small rural populations, as can be seen in Figure 3.

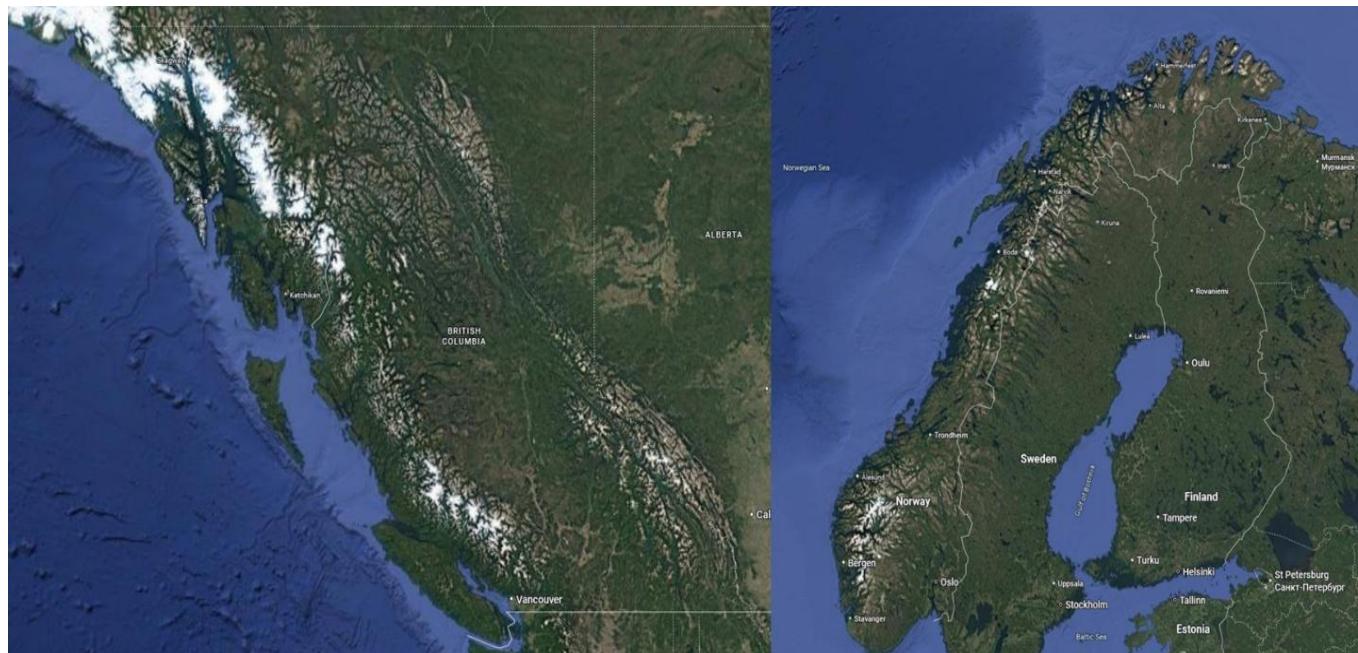


Figure 3: Terrain maps of BC (left) and Norway, Sweden, and Finland (right). Source: Google Maps (imagery/data © Google)

A 2015 OECD study (Leiren & Skollerud, 2015) documents how Norwegian authorities maintained rural services through demand-responsive transport (DRT), coordination of special transport services (school buses, patient shuttles, disability transport), and heavy reliance on public funding.

According to the study, Norway's rural and sparsely populated transport policy is a coherent, multi-instrument system aimed at preserving access in thin markets. The OECD study documents three policy pillars: (i) DRT to extend coverage where fixed routes are inefficient, (ii) coordination of "special" transport (school, patient, and disability trips) with general public transport to raise vehicle utilization, and (iii) stable public funding coupled with contracting. In practice, Norwegian counties<sup>7</sup> procure services (often in the form of gross-cost contracts through competitive bidding), while the state provides earmarked transfers and a common policy framework. Services range from fixed-route rural buses to pre-booked shared DRT using minibuses and taxis.

Funding is structurally public: county budgets and national grants underwrite operations that cannot break even. Where school transport or patient transport is mandated, Norway pools those budgets with general public transport so the same vehicles can serve multiple purposes across the day. This integration reduces dead-running and per-trip costs. The OECD report notes that making formerly exclusive services "open access" (e.g., letting general riders use vehicles paid for by the health or education sector) boosts efficiency, but is managed to ensure that the quality of service for the most vulnerable users is protected. Implementation of this policy require stakeholder bargaining and clear service standards so accessible or patient trips are not diluted when mixed with the general public.

Norway demonstrates that coordination in addition to public subsidy can sustain services even in the most challenging geographies. The key lesson is not only fiscal commitment, but also the centralization of planning and funding at higher tiers of government. By pooling education, health, and transport budgets and contracting services through counties with national transfers, Norway's practice is consistent with

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<sup>7</sup> Norway has a three-tiered system of government: national, regional (county), and local (municipality). The country's jurisdiction is structured along both administrative and judicial hierarchies.

what economic theory suggests – when spillovers are large and local tax bases thin, higher-level fiscal and administrative coordination can ensure stable provision.

## **4.2 Denmark: regional agencies and “Flextrafik”**

Denmark organizes surface transport through regional agencies owned by municipalities and regions (e.g., Movia on Zealand/Copenhagen; Midttrafik in Central Denmark)<sup>8</sup>. These agencies plan and manage buses and flexible transport (“Flextrafik”), while municipalities/regions finance operations. Public information notes over DKK 2 billion (~ CAD 440 million as of October 2025) annually invested by municipalities/regions in bus, local rail, and special-needs/patient door-to-door services, an ongoing operating commitment. Flextrafik centralizes booking and dispatch of shared rides (minibus/taxi) for special transport and general DRT, letting the agency allocate trips across contracted providers.

Denmark’s case also shows how higher-level coordination reduces duplication and captures scale economies. By pooling demand across municipalities and integrating special needs with general transport, the positive externalities of frequency and coverage are internalized, resulting in more efficient and equitable service provision.

## **4.3 Finland: procurement and licensing for rural/DRT**

Similar to Norway, Finland offers useful parallels to BC. Both BC and Finland combine relatively small and dispersed populations across large geographies, with northern climates and the challenge of linking many rural communities to regional hubs. Like BC, Finland also has its largest population centres in the south, while much of the remaining territory is rural, sparsely settled, and costly to serve by market provision alone.

Finland’s framework stresses that publicly funded transport (including DRT) is procured under its public procurement law, with licensing requirements for providers and minimum service commitments (e.g., at least one year). Another OECD compilation (2015) highlights how procurement rules, licensing, and coordination mandates allow a

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<sup>8</sup> Denmark has a three-tiered jurisdiction structure, with authority distributed between the national government, five administrative regions, and 98 municipalities.

fragmented set of providers to operate as a unified network from the rider's perspective.

From an economic standpoint, Finland's approach shows how clear institutional frameworks reduce transaction costs and mitigate coordination failures. By ensuring continuity through contracts and pooling multiple providers into a coherent system for riders, Finland also operationalizes fiscal federalism in the public transportation sector in that higher-level institutions step in to guarantee quality and efficiency where purely local provision would be insufficient.

#### **4.4 United States – section 5311 rural and inter-city busing**

The U.S. FTA section 5311<sup>9</sup> program provides formula funding to states for rural transit. Federal shares are typically 80% capital, 50% operating, and 80% (Americans with Disabilities Act, or ADA) paratransit. A critical subset is 5311(f), which supports its Rural Intercity Bus Program in rural states (often competitively awarded to private carriers under state oversight). This model has sustained a skeletal inter-city network where Greyhound exits occurred, by co-funding operations while states handle planning and grant management.

Section 5311 is an example where targeted subsidies align private incentives with social welfare. By co-funding operations through federal–state partnerships, the program internalizes the positive externalities of connectivity and addresses the under-supply that arises when left solely to market provision.

### **5. Lessons for BC**

Experience from other jurisdictions shows that sustaining long-distance public transportation, including ICBs, requires more than ad hoc subsidies. It depends on stable funding frameworks, integrated operations, and political acceptance that such services are regional public goods.

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<sup>9</sup> See <https://www.transit.dot.gov/rural-formula-grants-5311>.

The evidence reviewed above suggests that centralized, higher-level planning and funding of long-distance public transportation, especially in rural and sparsely populated regions, reduces administrative duplication, increases vehicle utilization, and delivers more service per dollar than fragmented, locally managed models. For example, Norway's pooling of education, health, and transport budgets, and Denmark's regional transport agencies, are cited by OECD studies as producing measurable social benefit gains on a per-unit cost basis through reduced dead-running and shared dispatch systems. Finland and the United States also illustrate different facets of this challenge, but the common threads are clear.

## **5.1 The case for stable, predictable funding**

Successful funding models rely on predictable public transfers, not one-off grants. Norway's counties draw on earmarked state transfers to underwrite contracts for rural buses and demand-responsive transport, while Denmark's municipalities and regions contribute annual operating subsidies through their regional transport agencies. In the United States, the federal section 5311 program allocates formula-based grants to states, covering both capital and operating costs for rural transit.

The message for BC is that long-term operating support should be built into the budget, ideally with a dedicated revenue stream or standing provincial program. This approach is consistent with the logic of fiscal federalism where services have benefits that spill across jurisdictions and cannot be financed locally, higher-level governments should finance and coordinate provision. Also, the provision of the public good often has positive externalities and social welfare impact in the long run that cannot be realized by laissez faire market structures or with ad hoc intermittent local solutions.

## **5.2 Integrated operations and coordination**

Regarding operations and planning, jurisdictions that succeed do not treat long-distance public transportation, medical shuttles, and school transport as separate silos. Norway's pooling of education, health, and transport budgets allows the same vehicles to be used throughout the day, reducing dead time and costs. Denmark's Flextrafik

centralizes booking and dispatch of both special-needs transport and general demand-responsive rides, creating economies of scale and a single point of access (less friction) for users.

Where BC Transit, prospective private operators, Health Connections, BC Bus North, and community shuttles all operate in parallel, the lesson is to pursue institutional coordination to improve efficiency and user experience. These arrangements also reflect the Mohring effect: by increasing effective frequency (more vehicle-hours in service across overlapping user groups), jurisdictions reduce waiting times and improve welfare for riders, generating benefits that markets, on their own, systematically underprovide.

### **5.3 Framing and legitimacy**

Political feasibility hinges on how these programs are framed. In Norway, rural mobility is explicitly treated as a public responsibility, backed by service guarantees for vulnerable groups to ensure that efficiency reforms (like opening patient or disability vehicles to general riders) do not erode equity. In Denmark, regional transport agencies are accountable to both municipalities and the public, giving them legitimacy to raise and allocate funds. In the U.S., the inter-city set-aside within section 5311(f) was designed to preserve interstate connectivity after Greyhound cutbacks, helping state governments defend subsidies as necessary to prevent isolation of rural communities.

These political strategies align with the broader Musgrave–Oates framework: they treat long distance public transportation as a regional public good with distributional and stabilization functions as well as allocative efficiency, which justifies its place in the portfolio of higher-level government responsibilities.

For BC, this lesson underscores the need to elevate public communication and policy framing around public transport. When residents and decision-makers view such services as essential public infrastructure comparable to healthcare or education, stable funding becomes politically and institutionally sustainable. This shift in framing

can help transform fragmented programs into a coherent, province-wide commitment to equitable mobility.

## 5.4 Integration and fiscal design

Finally, across all these cases, cost reduction and efficiency are pursued not by starving services, but by integrating and professionalizing management. Whether through county-level procurement in Norway, regional agencies in Denmark, or state-administered federal grants in the U.S., these jurisdictions rely on clear contracts, competitive tendering, and multi-year agreements that balance efficiency with continuity.

For BC, a parallel could be drawn to the double-dividend concept. Using corrective revenues, from fuel or carbon taxes, congestion charges, or second-best road pricing instruments such as parking fees and road tolls, to finance long-term operating contracts would both internalize environmental costs of private travel and stabilize public mobility options.

In this way, the international lessons show how practical funding and planning choices rest on the same economic principles already discussed: correcting market failures from scale economies and externalities, assigning responsibility at the appropriate level of government, and using smart fiscal tools to align environmental and social goals.

## 6. Policy Recommendations for BC

The preceding discussion suggests that the challenge of sustaining long distance public transportation, including ICB services, in BC lies less in identifying need, which is clear from both the evidence on safety and equity and the theoretical framework from economics, and more in developing a funding and governance model that can provide services reliably over time. Experience from other jurisdictions shows that durable systems tend to emerge where funding and operating support is made predictable, where multiple service types are coordinated by a higher-level government, and where

the political framing of long distance public transportation as a public responsibility is accepted across levels of government.

One implication for BC is that any future arrangement could benefit from a clearer institutional framework for planning and funding. At present, long-distance public transportation is supported through a combination of ad hoc federal, provincial, local commitments, targeted corridor programs, and commercial provision in higher-demand markets. While this mix has succeeded in preventing a complete collapse of services since Greyhound's exit, its fragmented character makes long-term planning more difficult. Moving toward a more integrated structure, for example, within the Ministry of Transportation and Transit (MoTT), or through a regional or provincial coordinating body, such as BC Transit, would create greater predictability for operators and communities.

A second area is funding stability. The theories of Musgrave and Oates suggest that long distance public transportation is best financed by higher-level governments, given its regional spillovers and the limited fiscal capacity of small communities. In practice, this points to the value of embedding operating support within regular provincial budgeting cycles, rather than relying on short-term pilot allocations. International models also highlight the potential for federal–provincial cost sharing on both capital investment and subsidizing operations, particularly where mobility outcomes align with federal objectives on reconciliation, regional development, and greenhouse gas reduction.

Third, there may be scope to expand coordination across service types. As seen in Norway and Denmark, combining medical shuttles, school transport, and general inter-city routes under one planning and dispatch framework can reduce costs and increase effective frequency. BC already has elements of this such as Health Connections, BC Transit services, and community shuttles, but more systematic integration could yield further efficiency gains while improving rider experience.

Finally, the discussion of the double-dividend concept suggests a possible fiscal avenue. The province's fuel or carbon tax or similar instruments could be linked more

explicitly to long distance public transportation and rural mobility. This would align environmental and congestion pricing in crowded urban centres with the provision of a lower-emission transport alternatives, while addressing equity concerns for communities with fewer travel options. The bottom line is that environmental, fiscal, and transport policy can reinforce one another when considered jointly at the provincial level.

## 7. Conclusion

The evidence reviewed in this report suggests that ICB services and other forms of public transportation in rural, remote, low-density, and Indigenous communities in BC cannot be sustained by market forces alone. High fixed costs, economies of scale, and network externalities make private provision unstable in low-density regions, while the social benefits of connectivity such as better accessibility, agglomeration economies, safety, equity, and access to essential services all extend beyond the boundaries of any one community.

Economic theories and international evidence suggest that long distance public transportation services are best understood as a form of regional public good, requiring coordination and support at higher levels of government. The options outlined here do not prescribe a single model for inter-community public transportation but highlights features common to successful systems elsewhere that include predictable funding and operating support, institutional integration, and a fiscal structure that balances efficiency, equity, and long-term sustainability.

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