***There are many observations that can be drawn from reviews of outsourcing experience.***

***Chiefly, they include:***

- Audits and other after-the-fact reviews of state highway maintenance outsourcing programs have broadly shown that initial claims of projected cost savings and service benefits are, at best, difficult of substantiation and, at worst, overstated.

- No outsourcing plan is likely to be capable of being established unless a true financial plan has been developed that takes account of several considerations and can be tracked against certain goals.

- The considerable body of audit materials and reviews – from state auditors and legislative audits in particular – are an excellent learning tool that should be consulted by anyone desiring to consider or implement an outsourced program.

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The full report is available at:

***www.wsdot.wa.gov/biz/maintenance/pdf/outsourcing.pdf***

**Washington State Department of Transportation**

# Review of Highway Maintenance "Outsourcing"

*January 2004*

***Business analysis*** **must lie at the heart of the evaluation and design of a highway maintenance outsourcing opportunity.**

## *Why this paper?*

Almost all of the literature on highway maintenance outsourcing comes from the extreme sides of the political spectrum. Outsourcing *must* work. Outsourcing *must* fail. Where can public managers find the facts free of the ideological packaging? There is a growing body of follow-up information, much of it from official audit sources and other reviews, of actual outsourcing experience. These independent reviews provide a balanced perspective that is absent from the political advocacy. Examining the lessons learned can lead to wiser choices as to whether outsourcing should be undertaken and, if it is, what public management strategies and resource commitments will be necessary to make it successful.

## *Does outsourcing highway maintenance produce cost savings or improvements in service?*

After-the-fact reviews cast doubt on the savings claims made for maintenance outsourcing. Audits contain a variety of perspectives on performance but also raise concerns about oversight, management, payments for services, diminished competition, loss of time and resources, and inadequate needs assessments. In the future, state agencies ought to be expected to place a greater emphasis on management and perform more rigorous business analyses of outsourcing opportunities.

## *What do the audits and reviews conclude?*

### Massachusetts

- 1994 legislative audit finds political nature of contracts led to lax state oversight, poor performance, and 35% of contracted work completed by state forces.
- 1995 State Auditor finds meaningful cost comparisons cannot be made.
- Pilot program canceled and original plans to expand program abandoned.

### Virginia

- Cost analyses and savings questioned in 2001 legislative audit.
- Asset management contract extended an additional five years.
- No expansion of program to date.

### Oklahoma

- Contractor pulled out of asset management contract after a few months.
- In May 2002 the Oklahoma Senate passed Concurrent Resolution 73 stating that it was opposed to contracting out highway maintenance.
- ODOT has been in litigation for over 18 months over contract details and payment disputes.

### Florida

- A 2003 legislative audit indicates that FDOT could not prove overall agency savings but did cite an FDOT report of $5.9 million in highway maintenance cost savings based on an internally prepared FDOT analysis.

### British Columbia

- Independently prepared 1994 “Burton Report” finds cost increases to highway maintenance program, concern over long-term preservation of highway assets, and decreased competition.
- 2004 challenges include maintaining trained in-house expertise, insurance and third party litigation costs, and maintaining a competitive market.

### Texas

Texas measured performance of two pilot contracts from the start and found performance scores dropped significantly over the initial three years of the contract (13.45% percent decrease on I-35. and 13.33% decrease on I-20). TxMAP rates representative sections of highway using performance measures and sets 80% as the minimum service threshold.

***TABLE 1. TxMAP Results for Interstate 35 (July 1999 – August 2002)***

| Maintenance Activity | I-35 | I-35 | I-35 | I-35 | I-35 | I-35 | I-35 |
|---|---|---|---|---|---|---|---|
| | July-99 | May-00 | Oct-00 | Mar-01 | Aug-01 | Jan-02 | Aug-02 |
| Pavement | 85.66% | 86.51% | 80.29% | 70.82% | 75.77% | 73.57% | 65.94% |
| Traffic Operations | 85.97% | 69.90% | 87.74% | 72.26% | 73.25% | 79.65% | 73.53% |
| Roadside | 84.77% | 89.14% | 90.46% | 83.16% | 85.64% | 83.87% | 80.92% |
| Total Score | 85.40% | 83.34% | 85.97% | 75.81% | 78.23% | 77.87% | 71.95% |

***TABLE 2. TxMAP Results for Interstate 20 (October 1999 – August 2002)***

| Maintenance Activity | I-20 | I-20 | I-20 | I-20 | I-20 | I-20 | I-20 |
|---|---|---|---|---|---|---|---|
| | Oct-99 | May-00 | Oct-00 | Mar-01 | Sep-01 | Jan-02 | Aug-02 |
| Pavement | 83.91% | 84.74% | 91.16% | 77.11% | 76.00% | 82.79% | 70.15% |
| Traffic Operations | 74.36% | 52.83% | 74.67% | 62.50% | 62.25% | 68.89% | 59.60% |
| Roadside | 86.44% | 85.14% | 83.02% | 70.06% | 85.04% | 82.06% | 73.83% |
| Total Score | 82.47% | 76.91% | 83.98% | 70.81% | 75.96% | 79.79% | 69.14% |

## *What needs to be considered long before any outsourcing program is undertaken?*

- Scoping and planning.
- Asset management complexities of highway maintenance service delivery (including the dynamic of least life cycle costs).
- Economic analyses.
- Asset inventories and level of service trends.
- Service delivery and activity or unit costs.
- Contract administration responsibilities and costs (including liability and insurance analysis);
- Cost savings based on actual cost comparisons.
- Contracts specifications.
- Performance measures and evaluations with financial incentives/disincentives based on service thresholds.
- Competitive market analyses.
- Political direction.
- Public expectations.
- Exit strategies and contingencies.
- An experienced management team to administer, manage and evaluate contracts.
- Lessons learned can be used to inform future public policy and improve the delivery of highway maintenance.