



DATE: May 21, 2013

TO: Senate Committee on Business and Transportation

FROM: Paul Mather
Highway Division Administrator

SUBJECT: HB 2973

INTRODUCTION

House Bill 2973 repeals the requirement that the Oregon Department of Transportation contract out the maintenance of a segment of state highway. The bill requires ODOT to terminate existing contracts.

BACKGROUND

The 2009 Jobs and Transportation Act required ODOT to enter into a six-year pilot to contract out the maintenance of a 10- to 30-mile segment of state highway. ODOT entered into a contract with Eagle-Elsner, Inc. to maintain a 26-mile segment of OR 219 from west of Woodburn to north of Newberg.

The contractor is just beginning its third year of maintaining OR 219. The contractor and its employees have learned the functions of maintaining a state highway and are providing comparable maintenance quality. This pilot represents ODOT's first experience contracting out the maintenance of an entire segment of highway.

LESSONS LEARNED

During the pilot, ODOT has learned several lessons. We have found that the contractor can perform the maintenance functions and perform them at an acceptable level. However, the costs for the contractor to maintain the highway are more than for ODOT. For the first two years of the contract, payments to the contractor have totaled about \$600,000 per year. ODOT's historical four-year average to maintain the same segment prior to the start of the contract totaled about \$250,000.

The current contract is based on time and materials to perform the maintenance functions. Our hope is to move to a performance-based contract, in which the contractor is given goals and objectives to meet and is paid on how well goals are met. A performance-based contract, however, would transfer risk to the contractor and likely increase the cost.

Now that we have two years of experience with the pilot project, we've identified three primary reasons why the costs are higher:

- Contractors and ODOT have very different business models.

- The contractor's overhead rates are much higher than ODOT's, which would be expected since they are maintaining just a 26-mile segment of highway. ODOT's overhead is spread over its entire operation, which includes more than 8000 miles of state highways.
- The maximum loaded rate for the contractor's wages range is \$63 per hour, based on the requirement to pay prevailing wages. ODOT's maximum loaded rate is \$36 per hour.

DISCUSSION

HB 2973 removes the requirement in law that ODOT must contract out the maintenance of a state highway for six years. Under the bill, ODOT would be required to terminate existing contracts as soon as feasible.

For the first two years of the contract, payments to the contractor have totaled about \$600,000 per year. ODOT's historical four-year average to maintain the same segment prior to the start of the contract totaled about \$250,000. Should ODOT terminate the contract, the difference in the cost would be used to restore maintenance services statewide.

SUMMARY

HB 2973 requires ODOT to discontinue the pilot project to contract out the maintenance of a segment of highway, but gives the agency flexibility for the timing.

Attachment: [2013 Maintenance Outsourcing Pilot Project on OR 219 Report](#)