



DATE: March 4, 2013

TO: House Committee on Transportation and Economic Development

FROM: Paul Mather
Highway Division Administrator

SUBJECT: HB 2972

INTRODUCTION

House Bill 2972 repeals the requirement that the Oregon Department of Transportation contract out the maintenance of a segment of state highway. The bill allows ODOT to discontinue any renewal or extension of 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.

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- 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 2972 removes the requirement in law that ODOT must contract out the maintenance of a state highway for six years. Under the bill, ODOT would not be required to renew the contract. Should ODOT not renew the contract, the difference in the cost would be used to restore maintenance services statewide.

SUMMARY

HB 2972 gives ODOT the flexibility to discontinue the pilot project to contract out the maintenance of a segment of highway.

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