

MEASURE: HB 2972
EXHIBIT: 12
HOUSE TRANS & ECON DEV
DATE: 3-4-13 PAGES: 7 pp
SUBMITTED BY: Rep. Dherby



REPORT ON
MAINTENANCE OUTSOURCING
PILOT PROJECT ON OR 219

FEBRUARY 2013

Project Overview and Update

The 2009 Jobs and Transportation Act (JTA) required the Oregon Department of Transportation (ODOT) to undertake a six-year pilot project to contract out the maintenance of a 10- to 30-mile section of highway and to report on the project's status and progress biennially.

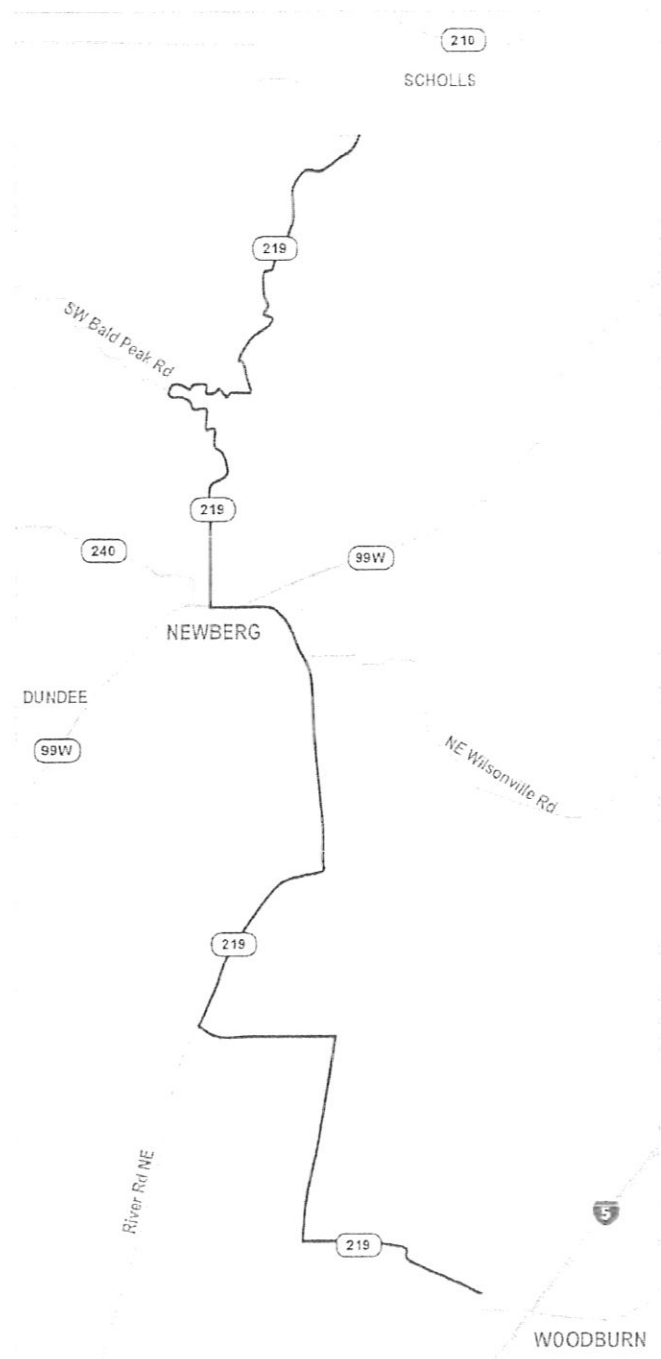
Project Background

ODOT selected a 26-mile segment of OR 219 from Scholls, north of Newberg (mile point 10.05) to about one mile west of I-5 at the Marion County line near Woodburn (mile point 36.05). This segment is shown in blue in the map to the right.

Contract Background

As directed by the JTA legislation, ODOT used authority through the Oregon Innovative Partnerships Program to negotiate and enter into a contract with Eagle Elsner, Inc. in May 2010. The contractor began to maintain the pilot segment in December 2010 following negotiations the issuance of a work order contract. Work order contracts between ODOT and Eagle-Elsner are negotiated annually.

Through negotiating cost containment measures, the contractor provides services very similar to that of an ODOT maintenance crew with few exceptions. Activities the contractor provides include work such as snow and ice removal, pavement maintenance, guardrail repair, sweeping, brushing, culvert cleaning, sign maintenance, striping and bridge deck cleaning. The contractor also responds to extraordinary conditions such as flooding or crashes.



Contract Status

The pilot has now been operating for two years. The first work order contract (WOC) for the pilot project covered a period from December 1, 2010 through October 2012 and is complete. ODOT and Eagle-Elsner, Inc. have chosen to continue using a time and materials-based approach during the second WOC, providing ODOT and Eagle-Elsner a longer period of time to gather data on the true costs and possible liabilities that may occur. ODOT's hope is that after the contractor gains additional experience, it may be possible to negotiate a performance-based contract in which the contractor is given goals and objectives to meet and is paid according to how well they deliver.

The second Work Order Contract has been executed and will expire at the end of June 2013, coinciding with ODOT's fiscal year. The second WOC reflects a five percent reduction in overall contract budget to reflect a similar reduction in ODOT's budget. The WOC also includes a quality rating formula that has penalties built in for significant sub-standard quality. Since the second WOC remains time and materials based, the contractor is paid for work performed.

Performance Management

During the first two years of the contract, Eagle-Elsner has been exposed to most aspects of highway maintenance. Eagle-Elsner has met performance expectations, and its employees are eager to improve their highway maintenance skills.

ODOT staff holds monthly meetings with Eagle-Elsner to provide feedback on its crew's performance in areas such as highway surface conditions, shoulder maintenance, drainage work, roadside vegetation, traffic services, structure maintenance, snow and ice treatments, and other highway maintenance activities. ODOT monitors conditions by driving the segment of highway twice per week. ODOT provides more immediate feedback to the contractor as needed. The contractor's performance has improved as they have gained additional experience.

ODOT conducts a monthly quality rating on the contractor's work. For comparison purposes, ODOT rates a similar segment of highway, OR 240, maintained by the ODOT crew. To date, the contractor's work has been within the acceptable range and is comparable to work performed by the ODOT crew.

Work Planning

The contractor is required to submit a yearly work plan and budget, which is entered into the ODOT maintenance budget system (HBUD). ODOT Maintenance crews use the same system. This is done to track the contractor's budget in the same manner as the ODOT maintenance crews. The first year, ODOT staff provided a lot of guidance and assistance to the contractor to develop the work plan and budget. The contractor now prepares that budget/work plan, with ODOT providing review and approval.

The contractor provides monthly work plans, weekly progress reports, and detailed accomplishments with the monthly billings. Although ODOT staff still provides observations and guidance to the contractor, good progress has been made in recognizing needs and adjusting work priorities based on circumstances. The result is a significant reduction in the monthly planning oversight that ODOT performed for the first two years of the contract.

Costs

Through January 31, 2013, the total cost of the pilot is approximately \$1,566,800. This includes ODOT costs for procurement, contract administration and payments to the contractor. The following is a high-level breakdown of approximate costs:

ODOT procurement phase costs	\$299,500
ODOT contract administration	\$29,400
ODOT training provided the contractor	\$5,300
Payments to contractor for contract work	\$1,232,600
Total	\$1,566,800

ODOT Project Costs:

Costs incurred by ODOT for the procurement of the pilot include equipment preparation, purchase of two variable message signs for contractor use, purchase of state radios, ODOT staff time for contract preparation and administration, and Department of Justice reviews. ODOT costs through the procurement phase are approximately \$299,500.

ODOT District 3 oversight and administration of the contract averages about \$1,130 per month, over the 26-month period from December 2010 through January 31, 2013. This includes the Transportation Maintenance Manager that works directly with the contractor, clerical support personnel, fleet, and office expenses. The cost to administer the project has been decreasing as the contract becomes more proficient in the work planning aspect of the contract.

Contractor Payments:

From December 2010 through January 31, 2013, the payments to the contractor are approximately \$1,232,600. This includes about:

- \$516,800 allowance for the contractor's off the top administrative and overhead costs
- \$715,800 is for work performed, employee training, and fleet related costs

The labor, equipment, material, and subcontractor rates have mark-up rates of 20, 17, 17 and 8 percent respectively, consistent with what ODOT allows in construction contracts.

Cost Containment:

ODOT took the following cost containment measures, thereby reducing the impact of the limited size of contracted area and attempting to provide a more balanced comparison:

- \$18,700 – For the period from December 2010 through January 31, 2013, the first 26 months of the contract, ODOT provided the contractor with materials from the nearby maintenance station, such as sand and deicer. These costs are not included in the total

contract cost and are not included in the ODOT costs shown, but rather are absorbed in the ODOT crew's budget.

- \$25,500 - Purchased and provided state radios for contractor use at no charge.
- \$17,800 - Purchased and provided variable message signs for contractor use at no charge.
- Leased used specialty equipment to the contractor: Two plow/sander/deicer trucks at \$2000/month total. The lease amount is shown as a deduction on the contractor's monthly invoice.
 - \$50,000 - The cost to prepare the vehicles for the contractor, includes the purchase of a new 1500-gallon slip in de-icer unit.
- Leased use of the Newberg yard and equipment parking area to contractor at \$200/month. The lease amount is shown as a deduction on the contractor's monthly invoice.
- Negotiated the removal of the requirement to provide first/incident responder service but required the contractor to assist at incidents as emergency responders, as ODOT maintenance crews do.

Annual Cost Comparison Information

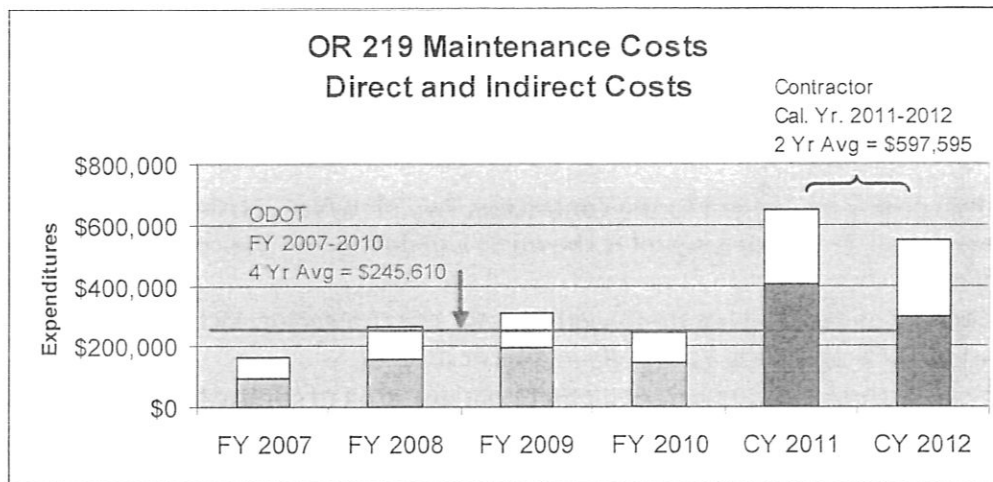
The contractor began to maintain OR 219 in December 2010, the middle of fiscal year 2010-11. ODOT's historic average cost to maintain this section was about \$246,000 per year. This average is based on the costs from the four full fiscal (July through June) years prior to the beginning of the contract. The average per year included about:

- \$97,000 - Indirect costs
- \$149,000 - Direct costs

Over the first two calendar years, the contractor's costs for maintaining this section averaged roughly \$598,000. The average per year included about:

- \$248,000 - Indirect costs
- \$350,000 - Direct costs

The chart on the following page compares ODOT's historical costs over the prior four full fiscal years to the contractor costs incurred over the past two full calendar years. By showing the contractor's costs by calendar year, we are able to provide two full years of data. Blue represents ODOT costs prior to the project and red represents the contractor's costs. Indirect costs are shown in yellow.



Lessons Learned

Contractors and public agencies have different business models. This makes cost comparisons challenging. Understandably, the contractor must be profitable to remain viable as a company and employer. As a public agency, ODOT operates under a public service model and must continually strive to provide value to the public through effective delivery of those services.

Anecdotally, the contractor has said that the contract with ODOT is not one of their most profitable operations due to the amount of oversight and decision-making required of their management and administrative office. Part of the value of this contract is to provide some employment stability to a core group of the contractor's employees. This allows some assurance of experienced staff being available during the busier construction season when the contractor is performing work that is more profitable.

Similarly, some ODOT maintenance work is seasonal, such as snow and ice removal in the winter months. Other maintenance activities are spread throughout the year allowing ODOT to match work with available resources. ODOT has typically utilized contracts with private sector companies to augment its workforce and for specialty work, as well as for the purchase of goods and materials.

This pilot project represents the first experience ODOT has with contracting out the maintenance of an entire segment of state highway. Clearly, the contractor can perform maintenance work. However, under the current cost structures, the cost to the public is greater with the contract forces than with the state maintenance forces.

Summary

ODOT is pleased with both the progress made by Eagle-Elsner's staff in maintaining OR 219 and the cooperative working relationship that has developed. ODOT believes that extending the time and materials-based contract through the second WOC is the most effective way to manage the contract and is beneficial to both the contractor and the Department. Overall, the contractor cost has been higher than the ODOT cost, while the quality is comparable.

The contractor continues to gain knowledge and understanding of the various aspects of highway maintenance activities, and over the past two years, ODOT has progressively decreased its direct involvement in the maintenance activities, while observing improvement in the contractor's efficiency in job performance and cost control.

With the first two years of the six-year pilot project complete, ODOT anticipates that it will continue to gain information through the pilot project that will inform decisions about the best methods to deliver highway maintenance services to the public. The pilot project should provide ODOT with data to demonstrate whether contracting-out the maintenance of an entire segment of a highway proves to be a cost-effective method to assist with maintaining Oregon's highways.

