



Montgomery County Government

M E M O R A N D U M

December 3, 1984

TO: County Council

FROM: Andrew Mansinne, Jr., Director, Office of Legislative Oversight
Andrew Mansinne, Jr.

SUBJECT: Office of Legislative Oversight Memorandum Report
Outside Study of DOT Maintenance Management

PURPOSE. This memorandum is a report on the activities that have occurred in relation to the outside consultant study of the Department of Transportation (DOT) highway maintenance management program that was conducted by Roy Jorgensen Associates.

AUTHORITY. Council Resolution 10-559, subject: CY 1984 Work Plan of the Office of Legislative Oversight, adopted January 31, 1984. This memorandum report was prepared by Jonathan Weiss, Program Evaluator.

STATUS OF DOT HIGHWAY MAINTENANCE MANAGEMENT PROGRAM.

1. Background. In December 1981, the consulting firm Roy Jorgensen Associates (RJA), under the sponsorship of the Montgomery County Taxpayers League, offered to perform a feasibility study at no charge to the County examining the potential for expanding the use of private contractors to perform highway maintenance. The County agreed to cooperate with the RJA study in June 1982. After consultations with DOT personnel, RJA developed an acceptable work plan and proceeded to conduct the study.

2. DOT supplied RJA with various data pertaining to the County's cost of highway maintenance; and RJA developed additional data projecting the cost of privately contracting out such operations. In August 1983, RJA submitted its final report, which concluded that the County could save as much as thirty percent of its currently budgeted maintenance costs by contracting out the entire highway maintenance program. The estimated savings for just the Colesville area (the subject of the RJA study) were in excess of \$500,000 annually, which would project to roughly \$3 million for all highway maintenance activities.

3. Under the RJA proposal, all highway maintenance work (including snow removal and leaf collection) would be performed by the private sector. DOT would employ a managing contractor (a firm such as RJA) to

run the entire operation: developing and administering contracts, planning and scheduling work, training contractors, and performing quality control. Under such an arrangement, the County's direct role would be limited to oversight of quality control and legal review of contracting.

4. OLO Review. This office reviewed the RJA study at that time and attended the consultant briefing for the Chief Administrative Officer (CAO) and other Executive branch managers. On the basis of an initial analysis of the data presented in the report and the RJA briefing, this office reached the following conclusions:

(1) The study methodology had substantial deficiencies that reduced confidence in its conclusions. It appeared likely that RJA had substantially underestimated the costs of contracting out and somewhat overestimated the cost of current County operations.

(2) A preliminary reanalysis of the study cost data suggested that RJA had overstated the potential net savings of full-scale contracting by probably two hundred fifty percent (250%) and that \$157,000 was a more realistic estimate of the potential annual savings in the Colesville area. This OLO estimate represents an eight percent (8%) savings rather than the thirty percent (30%) projected by RJA.

(3) RJA gave no serious consideration to the benefits obtainable from options other than its managing contractor concept, such as: expanding the existing policy of contracting specific functions; improving the organization, operations, and management of the current County run program; providing highway maintenance through other alternative concepts.

(4) Despite the above caveats, the RJA study clearly demonstrated that there was a case for further examination of the potential financial advantages from contracting out highway maintenance functions. Even a level of savings as low as five percent (5%) could still mean County-wide savings of \$500,000 annually.

5. Executive Branch Response. DOT reviewed the RJA report and prepared a series of comments and recommendations in early 1984. Its analysis was presented to the CAO at a briefing in June 1984. DOT identified a variety of data problems and methodological deficiencies in the RJA report, and reached a similar conclusion to that reached by this office: that RJA had substantially overstated the potential savings in the Colesville area, which DOT revised down to \$166,000.

6. Nevertheless, DOT also recognized that the RJA study had clearly demonstrated the potential for achieving cost savings through increased contracting out. It did not, however, agree with the RJA recommendation that the County should undertake comprehensive contracting of the highway maintenance program.

7. DOT proposed instead, with concurrence from the Office of Management and Budget (OMB), that it set an immediate goal of increasing its contracting activities by 15 percent in FY 1985 and that it undertake an independent consultant study financed by the Public-Private Partnership Fund (a non-departmental account administered by OMB). The proposed study would identify and assess potential cost-saving opportunities from increasing the amount of outside contracting in highway maintenance.

8. The CAO agreed that the recommended DOT response was appropriate and authorized DOT and OMB to proceed with plans to increase contracting levels and undertake the consultant study. The Director of Transportation sent a letter to the Taxpayers League in July 1984 informing them of these decisions.

9. Current Status. A draft request for proposals (RFP) to perform the consultant study has been prepared and circulated among DOT, OMB and the Contract Review Committee. The RFP is currently undergoing final changes in response to comments and is expected to be ready for public solicitation in early 1985.

10. DOT has included as part of its FY 1985 work program the requirement that the highway maintenance program increase its level of outside contracting by \$150,000, which corresponds to a fifteen percent (15%) increase. Senior staff indicated that no problem is expected in achieving that objective.

11. Conclusion. The Executive branch is making progress, albeit slowly, in responding to the issues raised by the RJA study. Until the proposed consultant study is performed, however, there is no way of determining what is the true potential for cost-savings through improvements to current highway maintenance operations and increased contracting.

JW:csb

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