

Is the Texas Department of Transportation headed down the wrong road?

State Highway Agency Criticized For Failure to Privatize More Work - Michael Totty
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Advocates of turning over government services to the private sector think so. The latest salvo comes from a new report by a conservative think tank, which charges that the agency is a bloated bureaucracy plagued with inefficiency.

Among the findings, the product of six months of study of agency operations by the Texas Public Policy Foundation:

- The Transportation Department's administrative costs run well above the national average for highway agencies.
- The agency's inventory of materials and supplies has needlessly climbed over the years; at the same time, the department can't keep track of lost or destroyed inventory.
- The department failed to follow legislative directives to use more outside engineering firms to plan and oversee highway construction.

The report concludes that the agency "suffers from a culture of arrogance and superiority that is hostile to the private sector" and is failing to keep costs down through more privatization.

Agency officials haven't seen the report, which is to be released today and a copy of which was obtained by Texas Journal. But William G. Burnett, the department's executive director, disputes many of the findings.

He notes that the department has increased the amount of projects that use outside design engineers. And despite the privatization fervor buzzing through Austin, Mr. Burnett argues that department engineers can get roads built cheaper and faster in many cases than private contractors can. He says rural areas would especially suffer if engineering work were put up for bids because there are so few private engineering firms outside of the state's major metropolitan areas.

The Texas Public Policy Foundation's report on the Transportation Department is part of a broader study it has undertaken of seven of the 21 state agencies

undergoing "sunset" review by the legislature during the 1997 session, which begins next week. Under sunset review, lawmakers look for ways to improve state agencies; every agency must be examined at least every 12 years.

The San Antonio think tank faults the sunset process for falling short in improving inefficient government operations.

"There hasn't been a strong and cohesive effort to look at ways to improve delivery of state services through processes such as privatization," says Cynthia Thomas, owner of Thomas [Research], an Irving research firm, and author of the study. "Left to their own doing, state agencies will not look at privatizing state services as a serious option."

The report is the latest voice in a chorus criticizing the Transportation Department for not assigning more work to private-sector firms. For several years the Consulting Engineers Council of Texas, which represents 250 engineering firms, has urged greater use of outside firms to design and oversee highway-construction projects. The council is expected to ask the Legislature this session to slash the department's engineering staff to ensure that more work is done by private firms.

What's more, the staff of the Sunset Advisory Commission, the legislative body that conducts the sunset reviews, concluded in its report for the 1997 session that the Transportation Department hasn't satisfied the Legislature's 1991 directive to achieve a "balance" in the use of in-house and outside engineering work.

Critics acknowledge the agency has made progress in contracting out some engineering services, along with highway maintenance. But to achieve more, they insist, the department -- which the report calls the "Texas Pentagon" for its profligate ways -- is going to have to dramatically change its nature.

"This agency should be a true transportation agency,

deciding when and where roads need to be built and repaired and little more," says Steve Stagner, legislative director for the Consulting Engineers Council. "We don't think the state of Texas needs to operate one of the largest civil-engineering institutions in the free world."

One of the largest state agencies, with nearly 15,000 employees and a budget of about \$3 billion in fiscal 1996, the department oversees construction and maintenance of Texas' nearly 77,000 miles of state and federal roads and highways.

Just as the state corrections agency doesn't construct prisons itself, the Transportation Department doesn't actually build roads. Instead, it relies on private highway contractors, which received more than half the agency's fiscal 1995 operating budget of \$2.9 billion.

What's different about the Transportation Department is that most of its engineering budget, which was \$233 million in fiscal 1995, is spent in-house, something other agencies don't do. And that is where the current privatization push is aimed. The Public Policy Foundation report criticizes the agency's efforts to privatize and, further, faults what it sees as inefficient operations and a costly bureaucracy.

Consider the inventory of roadway materials, highway signs and other supplies the agency keeps on hand for maintenance projects, even though about half of that work is contracted out. From fiscal 1991 to fiscal 1995, year-end inventories grew by about a third, to \$113.3 million.

A 1994 Transportation Department task force cited in the report uncovered "extensive overbuying" of roadway materials, which the task force blamed on "a spend-it-or-lose-it" philosophy of spending maintenance appropriations left at the end of a fiscal year before they disappear. It found that many of the department's district offices had a two-year to five-year supply of many items, including a four-year inventory of herbicides in Amarillo.

In addition, the think tank's report says it is impossible to determine the true cost of any excess inventory to taxpayers because the agency's accounting system doesn't track lost or destroyed inventory.

Mr. Burnett, the Transportation Department's

executive director, says, "We try to have just as much money tied up in stock as we need to do our business," noting that inventories at the end of fiscal 1996 declined about 6% from a year earlier. He also points out that the agency received legislative approval in 1995 to carry over excess funding each year.

The report also found that the agency's administrative costs are sharply higher than in other state highway departments. According to figures reported to the Federal Highway Administration, fiscal 1995 administrative overhead at the Texas agency accounted for 11.9% of the \$3.6 billion of total spending including debt service. That compared with a U.S. average of 7.1%, and just 4.8% at Florida's highway agency, cited by the report as a model of agency efficiency and efforts to privatize.

Mr. Burnett says the figures his agency reports to the federal government include contributions to employee retirement plans and other costs that aren't "all administrative." When costs are calculated for state budgetary purposes, administration accounts for about 5% of construction spending, he says.

As for the issue of privatization of engineering services, the department performs two types of engineering services: preliminary design of roads and highways, and the inspection and administration of highway projects under construction. Since 1991, the Legislature has required the agency to achieve a "balance" between in-house and contract engineering for both activities, though it didn't specify a required ratio.

The Public Policy Foundation report recommends that at least half of all design and construction engineering be performed by outside contractors, a goal it says the agency isn't near in either area.

In fiscal 1995, the agency spent about \$114 million on construction engineering, but only about 1% of that went to private engineering firms.

Mr. Burnett says the agency keeps construction engineering in-house because it can deliver engineering services in a more timely and efficient fashion, especially outside the large metropolitan areas. "That's not an area that we're ready to privatize," he says.

More is spent on engineering work devoted to preliminary highway design and planning -- \$119

million in fiscal 1995, 27% of which goes to outside firms. Although the report acknowledges greater progress here, it criticizes the department for falling far short of legislative demands.

A big thrust of the foundation's report is that privatization will save money, although the report doesn't offer a cost-comparison study of its own. But the think tank's consultant, Ms. Thomas, says, "It's my belief that market economics suggest that it's probably cheaper" to privatize.

The Transportation Department for its part points to several studies that conclude its costs are lower than the private sector. Private engineers counter that the agency understates its true costs by nearly one-third, and that if the agency had to compute its overhead costs the way outside firms do, the private sector would be less expensive.

Either way, Mr. Burnett says, the agency has "made a conscious effort to decrease our work staff and to increase our private-sector involvement." From fiscal 1991 to fiscal 1996, he says, the value of preliminary engineering contracts signed with outside vendors soared more than tripled to \$83.5 million. At the same time, the department cut the number of agency employees assigned to preliminary engineering projects to about 1,100 now from more than 1,500 in 1990.

Critics say this is still a long way from "balance." Mr. Stagner of the Consulting Engineers Council wants the agency to keep only about half of its current engineering staff and to contract most of its work to outside firms.

"Clearly [the department] needs an in-house engineering component," Mr. Stagner says. The use of outside engineering "needs to be between 50% and 70%," he says, "not between zero and 20%." (See related letter: "TEXAS JOURNAL --- Letters to the Editor: Give Report a Cold Shoulder" -- WSJ Feb. 12, 1997)