

State Engineering Association

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TRANSPORTATION BUDGET COMMENTS

July 13, 2017

Dear State Policymaker:

Waste is spending more than is necessary to perform a task or service. Years of studies and audits most recently in January strongly suggest that a proposal to cut Department of Transportation (DOT) engineering staff would be wasteful, requiring the state to pay more than necessary for budgeted services.

The **Wisconsin State Engineering Association (SEA)** is the statewide professional organization of licensed engineers and other technical specialists who work for the State of Wisconsin in a dozen state agencies. SEA members are responsible for implementing a myriad of engineering and science services on behalf of the state. We are also taxpayers and citizens dedicated to ensuring quality services that enhance and protect the lives of every state resident. Our independent association does not engage in political campaign activity and is free from affiliation with other state or national labor organizations.

SEA for years has monitored public policy issues important to engineering-related activity by state government, including spending and cost-effective means of service delivery. We frequently speak on these issues and communicate to lawmakers our findings and recommendations.

In the recent budget proposal related to Transportation, there appeared on Page 11 language by Representative Kooyenga cutting 180 engineers at the DOT. More recently the Wisconsin Manufacturers and Commerce business lobby has recommended without substantive foundation that the state cut not just 180 but 400 staff engineering positions. These proposals do not serve the best interests of Wisconsin taxpayers. Rather, the legislature and governor should increase the number of DOT engineering positions beyond current levels, rebuilding in-house expertise while saving money and continuing a course of action earlier implemented by the DOT based on a suite of studies and audits.

Representative Nygren, co-chair of the Joint Finance Committee (JFC), noted in an April 13 news release about DOT savings that JFC is “committed to ensuring this revenue will be spent wisely.” He also noted that “it is important to remember that the majority of improvements at the department were enacted under former Secretary Gottlieb.”

One of the key improvements Mr. Gottlieb made was hiring additional DOT staff. He looked at audits, independent studies, and prior cost-benefit information to gauge the value that internal staff provides to citizens. His hiring decision was wise. Please do not be misled by a special-interest cost analysis paid for by an out-of-state organization dismissive of Mr. Gottlieb’s thoughtful approach. Against that

misleading study is a strongly documented record revealing the benefits of in-house staffing versus outsourced consulting, in studies and audits produced during Democratic and Republican administrations alike. And it is clear that costs to outsource DOT work to consultants continue to grow.

The **Legislative Audit Bureau** analysis in January recommended more detailed reporting from DOT to the legislature regarding agency construction cost estimates and actual expenditures. LAB also recommended requiring DOT to take into account results of cost-benefit analyses account when deciding whether DOT staff or consultants will perform engineering work. In effect, this latter recommendation would resurrect the helpful system created under the now-defunct **Wisconsin 2005 Act 89**. Here is a summary of earlier reports that foreshadowed the most recent LAB audit:

Cost-Effectiveness Studies

- **May 1985** – work internally done by agency staff is more cost effective than consulting out.
- **November 2004** – work internally done by agency staff is at least 18 percent more cost effective than consulting it out.
- **June 2012** – work internally done by agency staff is at least 23.4 percent more cost effective than consulting it out.

What explains the above cost effectiveness gap growing over time? The following are factors:

- Consultant contracts include employee pay raises routinely ranging from 1.5 to more than 5 percent per year, notably higher than increases for state employed engineers.
- Consultant contracts include benefits equal to or greater than those factored into the cost of public employees to do the same work.
- Consultant contracts have guaranteed profit in the range of 7 percent and more.
- Public employees had their pay cut 6.8 percent in 2010.
- Public employee general wage adjustments in 2011, 2012, and 2013 were 0 percent.
- Public employee general wage adjustments in 2014 and 2015 were 1 percent each year.
- Public employee general wage adjustment in 2016 and 2017 were 0 percent.

Act 89 cost-benefit analyses as of October 19, 2016 continued to show considerable disparity in costs when comparing in-house DOT staff to consultants performing the same engineering work. Depending upon the project, the cost to the state for **outsourced** consulting work ranged \$15 to \$42 per hour higher. This is also confirmed on page 64 of the most recent LAB audit on the subject, which says the difference is "because the private sector pays considerably higher salaries than DOT pays... ."

The audit report, page 63, showed DOT way out of balance. Consultants performed **an astonishing 67 percent of state engineering work** at their much higher rates. That 67% is a bigger percentage than comparable transportation agencies in other states. A far more cost-effective level of outsourcing would flip that ratio, so that around two-thirds of DOT engineering work would be done in-house.

The public at large and taxpayers in particular expect that their representatives in the Assembly and Senate will deliberate carefully and choose the most cost-effective means and methods by which DOT and other state agencies deliver services. The type of overspending we bring to your attention

represents public policy that ill-serves and even angers taxpayers and is not their reasonable expectation, especially when transportation financing is so large and so difficult to resolve.

The public knows most of what it does about past waste resulting from over-use of outsourcing because Act 89 mandated that DOT along with other state agencies provide a rationale and actual cost comparisons between performing work in-house and via consultants. Unfortunately, in a previous budget, these Act 89 reporting requirements were all but eliminated. The result: wasteful spending that is no longer transparent to citizens or legislators.

Instead, such knowledge is once again closely held between state bureaucrats and contract consultants, firms that often rely almost entirely on state government spending and now operate as a kind of shadow arm of government itself. This has over the years developed to such an extent that many consulting firms permanently station their non-government employees within state government buildings, where they enjoy additional benefits such as free and uncouneted use of public resources including office space, phones, and computers.

The overall situation was further discussed in the most recent state audit report of DOT on pages 68, 69, and 70. SEA agrees with the LAB findings and supports the audit's recommendations. These recommendations are in line with SEA's previous input and comments to the legislature.

This audit is further evidence that current, out-of-balance work assignment percentages should in fact be reversed by hiring additional internal staff. This would have several benefits: Better control over costs, more cost effective work production, more control of the work product and quality, and more work performed by civil servants who typically live in the work area, leading to more accountability.

Outsourcing might on the surface continue to sound like a good idea, but study after study and audit upon audit show that in reality it often costs too much. Outsourcing drives big government through lobbying that commits the state to large but sometimes unnecessary projects. It degrades the ability of state agencies to independently supervise and evaluate outsourced work. It encourages inappropriate reductions in state staff and budgets that lead to even more outsourcing.

With tight budgets and continuing structural deficits, lawmakers now more than ever must carefully examine service delivery on behalf of taxpayers, ensuring an oversight role by state government whose performance data truly should be open to all. We must spend tax dollars in ways that demonstrably maximize delivery of goods and services to the people of Wisconsin, not just to special interests.

SEA recommendations for legislative action:

1. Limit outsourcing in any agency situation to no more than 30 percent of a program. Competition is good, and a limited amount of outsourcing provides DOT an ability to meet unexpected changes in programs and mission, but too much outsourcing is demonstrably a bad idea – it drives big government, plain and simple.
2. More aggressively track costs and use good decision-making processes; restore Act 89 cost-benefit analysis and make it stronger, in order to truly assess on-going performance.

3. Adjust state agency staffing size to keep up with program growth, maintaining ideal balance; establish linkage between program growth and agency staffing levels. Strengthen oversight, too little of which often produces bad and expensive outcomes.
4. Transportation funding is not unlimited; make sure the state is getting the most out of every tax dollar. Consider freezing consulting raises or setting them to the same rate as public employees. Also, lower the guaranteed profit on contracts when budgets are tight; the current, counterproductive tendency instead is to focus entirely on cutting the number of and compensation of public employees. That is especially damaging to staff expertise and oversight, when the consulting industry is currently doing 65 percent and more of the work.
5. Borrowing must be limited and the state should begin to pay down debt the state has accumulated. Given current estimates that up to 24 cents of every future transportation dollar will soon go to debt service, the time to act is now.
6. Most SEA members and members of the public with whom we have talked feel that an increase in the gasoline tax is the most reasonable and publicly acceptable solution to provide additional revenue to the transportation fund.

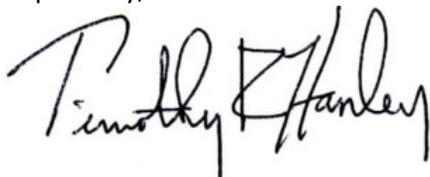
Look to the models of some of Wisconsin's most successful companies, such as Kwik Trip, which keeps work internal for most processes and services. Why? Because that is the most cost-effective approach. Kwik Trip makes its own ice, has its own bakery and delivers gas to its outlets with company trucks. The firm controls cost and quality of its products and services through internal oversight. The premise behind this approach also holds true for government. The best way to control costs and quality is to provide goods and services internally and avoid expensive, sometimes duplicative, and bureaucratically over-layered outsourcing.

Approximately 150 government-supported transportation consulting firms are based in Wisconsin. Please ask yourself and fellow legislators whether the state is getting full value for the transportation dollars it spends at a time when DOT consultants at a premium price duplicate offices around the state, including administrative and maintenance staffs.

That for state budget purposes demonstrably represents unnecessary overhead, with too few tax dollars spent on actual projects such as roads or bridges. Tax dollars in many cases would be better spent strengthening in-house engineering capability.

The State Engineering Association will continue to track and speak out for cost effective solutions to providing state engineering services. We would welcome an opportunity to meet with you and further discuss or answer any questions you may have.

Respectfully,



Timothy R. Hanley, President
State Engineering Association