

Approved: 2/14/96
Date

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES.

The meeting was called to order by Chairman Ben Vidricksen at 9:05 a.m. on February 13, 1996, in Room 254-E of the Capitol.

All members were present except:
Senator Rock

Committee staff present: Hank Avila, Legislative Research Department
Ben Barrett, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Martha Ozias, Committee Secretary

Conferees appearing before the committee:

Bob Totten - Kansas Contractors Association
Will Larsen - Attorney, Geht and Roberts, KCA
Wes Holt - President, Kansas County Commissioners Association
Frank Hempen, Jr. - Douglas County Director of Public Works/County Engineer
Orville Spray - President of Venture Corporation
James Perry - Reno County Commissioner
Robert Fischer - Reno County Commissioner
Mike Welsh - President of BRB Contractors, Inc.
Jerry Fowler - Public Works Department, Saline County
Mike White - Saline County Commissioner
Mike Brown - Secretary/Treasurer of Brown & Brown, Inc.
Joe Scammey - Chairman, Montgomery County Commissioners
Dick Kistner - Hall Brothers Construction Company, Inc.
Bob Corkins - Kansas Chamber of Commerce and Industry

Others attending: See attached list

SB 548 - CONCERNING COUNTIES; RELATING TO ROAD WORK

Mr. Totten spoke in support of this bill which would encourage the privatization of county projects and create additional jobs. It would require counties to let for competitive bid any projects in excess of \$10,000. (Attachment 1)

Will Larson explained the four main things that this bill would do and stated that there was a strong consensus that public bidding of public improvements promotes the most efficient use of public funds. (Attachment 2)

Wes Holt spoke in strong opposition to this bill stating that counties must retain the ability and the flexibility to determine if it is in the best interest of the taxpayers of that county to bid out or perform projects with available county labor and equipment. He felt that mandating project bids is not realistic and that county forces can do the same quality of work at less cost. (Attachment 3)

Frank Hempen also spoke in opposition citing several reasons including less flexibility for counties. He felt that County Commissioners are best qualified to determine where local interests would be best served and they would be required to increase technical staff to ensure quality control for contracted work. Privatizing would cause a reduction in personnel and county employment is a valued contributor to the local economy. (Attachment 4)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES, Room 254-E
Statehouse, at 9:05 a.m. on February 13, 1996.

Mr. Spray spoke in support of SB 548 stating mainly its cost to the taxpayer. He presented several articles which supported his testimony. (Attachment 5)

James Perry stressed the need for local county government to have the flexibility to serve the people in a cost effective manner. He cited many day to day functions that would be affected if this legislation was passed including bridge construction, repairs and improvements, patching of asphalt roads and paint striping. (Attachment 6)

Robert Fischer also opposed this legislation and emphasized the loss of the ability to make decisions at the local level. (Attachment 7)

Michael Welch spoke in support of the bill expressing his belief that by contracting the majority of its construction activities the counties can save half of their construction costs. Supply and demand is a part of the free enterprise system and the private sector has a strong incentive to manage its manpower needs. He pointed out that chain franchises provide computer services to keep accurate records and inventories and could provide inexpensive plans and accounting services for any county. (Attachment 8)

Jerry Fowler urged an end to the debate on SB 548 and asked the Committee to defeat the bill. (Attachment 9)

Michael White spoke on behalf of the Salina County Board of Commissioners advocating no more taxes, and mandates, and less bureaucracy with more authority for local governments. He stated that this bill was a mandate which would benefit special interest groups and have a negative effect on county budgets. (Attachment 10)

Mike Brown spoke in support of passage of this bill stating it would provide a lower cost of public works improvements and maintenance than what exists now and would result in lower taxes. It was felt that private industry can provide services cheaper than government because the expense of efficient equipment is cost prohibitive for most counties. He felt this project would be self funding because the work could be done better, cheaper and faster, taxpayers will reap the benefits and total employment will increase. (Attachment 11)

Joe Scammey addressed the fact that control of tax dollars should be kept on the local government level and asked the Committee to withdraw the amendments to the statutes and maintain the present commissioners authority. (Attachment 12)

Dick Kistner spoke in support of the bill stating that workers who do a job on a regular basis are better able to perform contracting that work than those who do it only occasionally. (Attachment 13)

Thoughts were presented by Bob Corkins on the concept of specifying that project costs be calculated by reviewing the costs of labor, equipment, materials and overhead attributable to the job. He stated that KCCI would support a mandate upon counties that required their selection of the most cost effective option that specific cost accounting could identify. (Attachment 14)

The next meeting is scheduled for February 14, 1996.

SENATE TRANSPORTATION AND UTILITIES
COMMITTEE GUEST LIST

DATE: FEBRUARY 13, 1996

NAME	REPRESENTING
Dick Kistner	HALL BROS. Const Co. Inc.
Bob Totten	Ks Contractors Association
Will Larson	Ks " "
Mike Brown	BROWN & BROWN, INC.
MIKE WELCH	BRB CONTRACTORS, INC
Orville (BOTH) SPRAY	VENTURE CORPORATION
Bob Fischer	Reno Co.
Frank Hempen Jr	Douglas & Ks Co. Hwy Assoc.
Wes Holt	Ks Co. ^{Pott Co. Comm.} COMMISSIONERS ASSOC.
JOE SCAMMEY	M.G. CO. COMM.
Anne Spiess	Ks Assoc. of Counties
Mike White	Sal. Co.
Jerry Fowler	Saline County
A. F. Butler	Montgomery Co. Comm.
MILTON L. LOWMASTER	MONTGOMERY Co. ENGINEER
Jim PERRY	RENO COUNTY COMM
Bob Corkins	KCCI
Whitney Danner	Coffey County, Kansas

THE KANSAS CONTRACTORS ASSOCIATION, INC.



316 SW 33RD ST PO BOX 5061
TOPEKA KS 66605-0061
PHONE (913) 266-4152
FAX (913) 266-6191

TESTIMONY

BY THE

KANSAS CONTRACTORS ASSOCIATION

Before the House Transportation Committee

Regarding Senate Bill 548

February 13, 1996

Mr. Chairman and members of the Senate Transportation Committee, thank you for the opportunity to appear before you today to provide input on Senate Bill 548.

I am Bob Totten, Public Affairs Director for the Kansas contractors Association. Our Association represents over 350 member firms in the Kansas Construction industry. Our members are the firms that build roads and highways throughout the Midwest as well as water and waste water treatment facilities.

This morning, I come before you to tell you of our support for Senate Bill 548. This measure is a simple bill which will encourage the privatization of county projects and create additional jobs. This measure would require counties to let for competitive bid any projects in excess of \$10,000.

It embodies the comments that President Clinton made several weeks in his State of the Union address when he mentioned "The Era of Big Government is over". It also is in line with what Governor Graves mentioned in his bid for election when he suggested government should make every effort to privatize.

We believe the bill if passed would reduce the size of county government which would reduce costs. It would also increase the taxes paid into the county coffers by private industry which would hopefully reduce property taxes.

Our association is strongly in favor of this bill and I have assembled a group of our members together today to testify. First of all, I would like to have Mr. Wil Larson of Gehrt and Roberts, who researched the bill to tell you more about it.

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 1

TESTIMONY OF WILL LARSON ON SENATE BILL 548
IN FRONT OF THE SENATE COMMITTEE ON TRANSPORTATION

My name is Will Larson. I am an attorney with the law firm of Gehrt and Roberts. I represent the Kansas Contractor's Association. Last year I was asked by the Association to help draft legislation which has now been introduced as Senate Bill 548. I've been asked to come here today to explain what Senate Bill 548 does.

Simply put the Bill does four things.

First: It requires that counties publicly let all projects for the construction, surfacing, repair or maintenance of county roads that exceed \$10,000 in cost.

Second: It requires that in determining the cost of a road project the county include the cost of labor, equipment, materials and overhead.

Third: It requires that counties and townships publicly let all projects for the construction, reconstruction or maintenance of county and township bridges and culverts that exceed \$10,000 in cost.

Fourth: It requires that in determining the cost of a bridge or culvert project the county or township include the cost of labor, equipment, materials and overhead.

In Kansas there is no overall bidding statute that would apply universally to all governmental entities. In fact bidding statutes are spread throughout the Kansas Statutes annotated. In

proposing Senate Bill 548 it was our intent to make it complementary to K.S.A. 19-214 which applies to county building and bridge contracts. In pertinent part K.S.A. 19-214 provides:

(a) Except as provided in subsection (b) and in K.S. A. 1994 Supp. 19-216a, all contracts for the expenditure of county moneys for the construction of any courthouse , jail or other county building, or the construction of any bridge in excess of \$10,000, shall be awarded , on a public letting to the lowest and best bid.

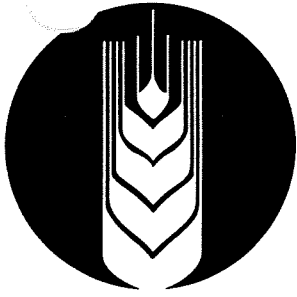
As you can see K.S.A. 19-214 already requires that counties publicly bid all building projects in excess of \$10,000. Senate Bill 548 would simply expand this concept to county road construction, repair and maintenance and to the construction, repair and maintenance of county and township bridges and culverts, that are not already covered by K.S.A 19-214. This appears to us to be a logical extension of K.S.A. 19-214.

In addition this bill provides that in determining the cost of a project to see if it exceeds the \$10,000 threshold the awarding authority must include at a minimum the cost of labor, equipment, materials and overhead. The awarding authority is free to include other legitimate costs if it chooses to do so.

The purpose of requiring the awarding authority to include at a minimum these specific cost components is to help insure uniformity in determining the cost of a project.

Finally I think it is worth pointing out that in the course or our research in drafting this

legislation we learned that, at least, as of approximately 1980, some thirty-two other states had some form of similar legislation. While the specific wording of similar legislation varies tremendously, it is clear there is a strong consensus that public bidding of public improvements promotes the most efficient use of public funds.



Kansas County
Commissioners
Association

215 S.E. 8th
Topeka, Kansas 66603-3906
(913) 233-2271

February 13, 1996

To: Senate Transportation and Utilities
Chairperson: Senator Vidricksen

To the Committee,

The Kansas County Commissioners Association strongly opposes Senate Bill 548. The responsibility for maintenance, construction, re-construction and design of all county roads and bridges rests with County Engineers, Public Works Directors and County Commissioners.

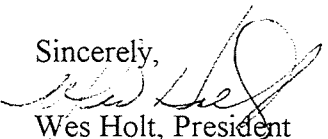
We believe that counties must retain the ability and the flexibility to determine if it is in the best interest of the taxpayers of that county to bid out projects or perform the project with available county labor and equipment. To realize the scope of work that needs to be done, counties currently maintain 109,565 miles of roadway in Kansas, about 100,000 miles more than the Kansas Department of Transportation. Taxpayers travel 11,581,506 miles on these roads every day. Counties maintain 19,800 bridges over twenty feet in length, and many thousands of smaller structures, that is over three times the number of bridges maintained by KDOT.

Although all counties utilize contractors for most road and bridge projects, there are not enough contractors available to meet demands of taxpayers. This legislation mandating that all projects over \$10,000 be bid, is not realistic and would be a disservice to taxpayers. Regular maintenance and emergency projects would not be accomplished on a timely basis, resulting in higher costs and taxpayer dis-satisfaction. We believe there are many reasons why county forces can do the same quality of work at less cost.

County Engineers prepare annually reports showing itemized costs of all county projects. Requirements in this proposed legislation of posting of all specifications and plans before construction is not needed in all cases and serves to increase costs of that project.

We believe that this legislation is targeted just a hand full of Kansas Counties and should not be allowed to become another mandate to all counties. We believe that current law is adequate and urge you not to take any action on this bill.

Sincerely,


Wes Holt, President

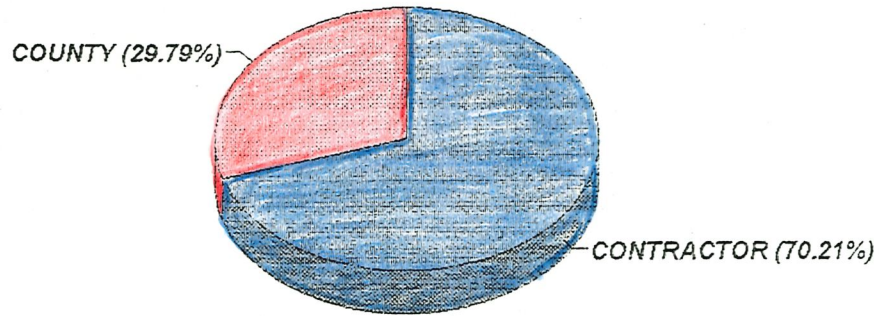
Kansas County Commissioners Association

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 3

Concerns with SB548

1. Increased work load on counties. To develop plans and specifications, when they not needed on smaller projects.
2. Additional staff requirements, technical staff and additional engineering staff to prepare additional plans and specifications. Possible CPA to do accounting procedures.
3. If work is contracted there will be a need to hire additional inspectors, creating increased costs.
4. Studies have shown in side by side comparisons that County forces can perform the work equal to or more economical than contractors.
5. Counties must always maintain crews and equipment for other functions, grading roads, snow removal, emergency repairs and maintenance. Need to maintain work for these employees.
6. Reduces flexibility for County Government to provide service to taxpayers.
7. State Law does not need to micro-manage county projects.
8. Government accounting and private accounting are not compatible.
9. Why are only counties targeted in this proposed legislation, not cities and also the State of Kansas? Need to be on a level playing field with all other entities.
10. Government should have the flexibility to choose a contracting agencies or business to accomplish a project who will provide the best service, not necessarily for the least cost.

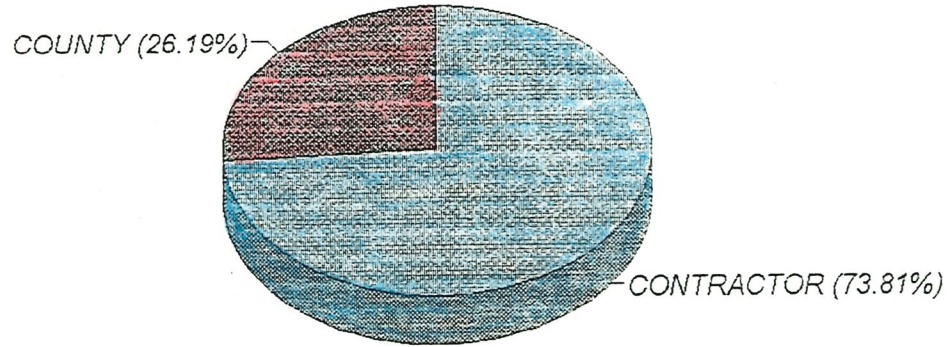
1995 CONSTRUCTION COSTS



1995 CONSTRUCTION COSTS

CONTRACTOR	\$682,500
COUNTY	\$289,530

1995 CONSTRUCTION COSTS

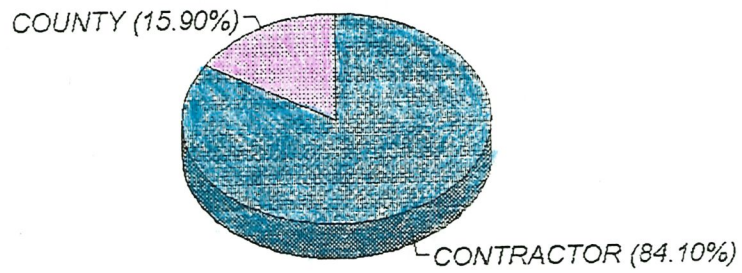


1995 CONSTRUCTION COSTS

CONTRACTOR	\$815,957
COUNTY	\$289,530

* This figures include \$39,891 for SCS projects

1994 CONSTRUCTION COSTS



1994 CONSTRUCTION COSTS

CONTRACTOR	\$1,684,190
COUNTY	\$318,306

Douglas County

Department of Public Works

Frank B. Hempen, Jr., P.E.
Director of Public Works/County Engineer

MEMORANDUM

TO : Honorable Members of the Senate Transportation and Utilities Committee

FROM: Frank B. Hempen, Jr., P.E., Douglas County Director of Public Works/County Engineer

DATE : February 13, 1996

RE : Opposition to Senate Bill No. 548

I am speaking in opposition to Senate Bill No. 548 for the following reasons:

1. This bill imposes stricter bidding requirements and allows less flexibility for counties than townships, cities, the Department of Transportation, or Regent institutions. If there is an interest in implementing such requirements for counties, they should be incorporated unilaterally.
2. Counties have the policy option of implementing more stringent requirements than required by current Statute. The local Board of County Commissioners, in counsel with their road and bridge manager, are best qualified to determine if local interest are best served by utilizing county forces or contractors for roadway projects.
3. The majority of counties do not have the benefit of professional engineering staff assistance. They now contract for those services for large projects. This bill requires development of plans and specifications for virtually all work undertaken. The State Board of Technical Professions Regulations require all roadway and bridge plans be prepared by a Registered Professional Engineer. Only 32 counties currently employ professional engineers full time. Additionally, all counties will be required to significantly increase technical staff to ensure quality control for contracted work.
4. Some types of work such as snow and ice control are not of interest to contractors. The effect of privatizing most road and bridge maintenance functions will leave counties with no alternative but to reduce personnel in these areas significantly hampering their ability to provide this type of emergency service.
5. County employment is a valued contributor to the local economy in many small and mid-sized counties. The road and bridge department is typically the largest employee group in the county organization.

TESTIMONY
by
ORVILLE (BUTCH) SPRAY
PRESIDENT OF VENTURE CORPORATION
before the Senate Transportation
Subcommittee

February 13, 1996

Regarding
SENATE BILL 548

Mr. Chairman and members of the committee, I want to thank you for allowing me the opportunity to appear and discuss this issue. My name is Orville Spray and I am President of Venture Corporation, a contractor from Great Bend, Kansas. I am also Transportation Chairman for the Kansas Chamber of Commerce and Industry (KCCI). I serve on the Board of Directors for both the KCCI and the KCA (Kansas Contractors Association). I was a member of the Governor's "Kansas Council on Privatization".

I am here today to ask you to support Senate Bill 548. I ask this because there are many reasons to support the bill and few, if any, not to support the bill.

Let us address the reasons to support the bill:

1. Cost to the taxpayer
2. Cost to the taxpayer
3. Cost to the taxpayer

In order to make an intelligent decision on the matter, I believe you need documented data from government entities and others, not contractors, who have learned to contract work.

ARTICLE 1: "WE CAN LOWER LOCAL TAXES"--Reader's Digest, September 1985.

(OUTLINE)

ARTICLE 2: "THE BOND BUYER"--August 8, 1995.

(OUTLINE)

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 5

ARTICLE 3: U S Department of Housing and Urban Development Study (1984)
"DELIVERING MUNICIPAL SERVICES EFFICIENTLY"

(OUT LINE)

ARTICLE 4: "FOLKS GET THEIR TAX \$\$ BACK IN BEST RUN TOWN IN AMERICA
(1995)

ARTICLE 5: KUTC Newsletter (Spring 1995)

A. OUTLINE

B. OUTLINE

ARTICLE 6: OREGONIANS FOR COST EFFECTIVE GOVERNMENT (January 1986)

A. OUTLINE

B. OUTLINE

C. OUTLINE

Let us address the objections to this bill which have been voiced:

1. "There are not enough contractors and sometimes we only get one bid!"

**(HOW MANY COMPETITIVE BINDS DO YOU GET IF THE COUNTIES DO THE
WORK?)**

WHY? The K.D.O.T. does not have a problem. There are basically two reasons: FIRST--most counties do not understand how to package a project, and SECOND, contractors from outside the area usually have no assurance if they are the low bidder that they will be awarded the contract.

2. IT'S A MANDATE--YES IT IS--WHY?

Mandates are a way of life. Thirty three (33) states have mandates for contracting. We all live under mandates. We have mandates because we will not always do what we should or do what it right. A synonym, of course, is **LAW**. Speed limits and taxes are examples.

3. THE BILL IS TARGETED AT COUNTIES ONLY---WHY?

The KDOT, KTA, FAA, etc have contracted for decades. They are contracting for more services each year. Most cities contract the majority of their public

works. Most counties DO NOT.

4. WHAT ABOUT SNOW REMOVAL, EQUIPMENT NEEDS, ETC?

It is relatively simple to secure bids, usually on a per hour rate for equipment, from private entities who own the equipment. This is done by private companies such as Dillions, Wal-Mart, etc. Unquestionably, the county would have to own a limited amount of equipment.

5. WE LOSS FLEXIBILITY, LOCAL CONTROL, ETC.

I do not believe agencies and companies such as the KDOT, KTA, Corps of Engineers, Soil Conservation Service, Dillions, etc believe they have no flexibility or control.

6. IT COSTS MORE MONEY TO CONTRACT OUT.

Someone hasn't been listening---or believing---or wanting to believe.

7. MANY COUNTY EMPLOYEES WILL LOSE THEIR JOBS.

This should be true. Our phone number is 316-792-5921. We desperately need motivated, experienced employees.

8. THE THRESHOLD LIMIT IS TOO LOW--\$10,000.

OK. Raise it.

9. WE BELIEVE, or studies have shown, THERE ARE MANY REASONS WHY COUNTY FORCES CAN DO THE SAME QUALITY OF WORK AT LESS COST.

Good. Show us an unbiased report using acceptable account procedures.

10. INCREASE COST TO DEVELOP PLANS AND SPECIFICATIONS.

Do what everyone else does, copy the K.D.O.T. plans and specifications.

11. WHY NOT WORK WITH THE COUNTIES TO CONTRACT OUT THE WORK?

We have tried for several years to no avail.

When all is said and done, what will best protect the taxpayer is competition-competition between private entities.

There should be no sanctuaries for monopolies, for monopolies are bad and government monopolies are the worst of all. Yet, unless some agencies are required by law to foster competition, they will continue to monopolize public works projects.

We Can Lower Local Taxes

ARTICLE 1
Phoenix

As pressures mount on municipal budgets, Phoenix and other cities are proving that taxpayer dollars can be saved even as more and better services are provided

"Reprinted with permission from the September, 1985 Reader's Digest. Copyright © 1985 by the Reader's Digest Assn., Inc."

BY RANDY FITZGERALD

TWENTY MILES southeast of Phoenix, a new waste-water treatment plant is nearing completion in the fast-growing city of Chandler. Because it will be a privately owned and operated facility—the first in the nation to serve a city this size—taxpayers will save about \$1 million a year.

- In neighboring Mesa, janitorial services were turned over to a private contractor in 1981. Now the city's buildings are kept pristine for \$250,000 less than when the city performed the service.

- In Scottsdale, adjoining Phoenix, the first U.S. city to use a private company for fire protection boasts of better-than-average fire-response times, at less than half the cost in cities of comparable size.

Across Arizona, rapid growth and tight budgets have stimulated new approaches to providing local government services, with "privatization"—contracting out to the private sector—as the centerpiece. Nowhere have changes been more rapid or far-reaching than in Phoenix, the ninth-largest city in the United States. Its innovations, which produce more services with fewer resources, are apparent in subtle but significant ways:

In new residential construction, for example, a single city inspector checks for structural safety, compliance with electrical and plumbing standards, soundness of mechanical systems, and adherence to the zoning code—tasks which in many cities involve four or more inspec-

tors. This consolidation alone saves the city over \$1 million annually.

In the city's Human Resources Department, a middle manager takes daily inventory of her productivity. She oversees dozens of employees, yet her salary is not based solely on that fact, or on how large her budget is; her pay is also tied to a Performance Achievement Program, rewarding her for improved performance and provision of services at the lowest possible cost.

A pivotal moment in the Phoenix success story came in 1978, in the wake of California's Proposition 13 and a nationwide tax revolt. Faced with the dilemma of trimming costs without curtailing services, the city council approved a call for bids from private companies to collect city refuse.

"Are you going to compare their bids with your own costs?" then-Mayor Margaret Hance asked Ron Jensen, director of the city's Department of Public Works.

"Yes, and we will bid too," Jensen replied offhandedly.

When the council meeting ended, Jensen realized that he had committed his department to compete with private contractors. Doubts began to surface. Could a large municipal agency ever outbid efficient private companies? After conferring with his staff, Jensen decided: Why not? In fact, why not use contracting out as a way to force city agencies to be more efficient?

To keep politics out of the bidding process, a city auditor examined the books of municipal departments, estimated equipment and labor costs, then prepared the city's sealed bids. Public Works lost to private contractors on the first four contracts let for trash collection in various parts of the city. But these setbacks only strengthened Jensen's resolve to make his department more productive.

Private-sector management techniques, new technology and other fine-tuning were added. Attrition and transfers reduced the number of sanitation employees by more than a third. But the biggest turnaround, says Jensen, came in employees' attitudes. "Before contracting out, there was little pressure on our department. We had nothing to compare our performance against; there were no real incentives. Now employees have been seized by a competitive spirit."

The result: last year Public Works outbid five contractors for the right to collect garbage in one section of the city, beating the next-lowest bidder by almost \$1 million a year. This will save taxpayers \$6.8 million over the life of the contract. "Morale among our employees skyrocketed," Jensen reports proudly. "We discovered that we can compete with the private sector."

Since 1978, Phoenix has placed 43 major contracts up for bid—for such tasks as landfill operation, street-median maintenance, water-meter repair, cleaning of municipal buildings, and bill processing. City departments have won 15; private companies have won 28. But the real winner has been the taxpayers—to the tune of some \$3 million a year.

For Phoenix, contracting out quickly became part of a larger program to streamline bureaucracy. The police department was able to keep costs down by replacing uniformed officers with lower-paid police aides on routine duties such as traffic-accident investigation, thereby permitting officers to spend more time patrolling high-crime areas. City departments are asked to see if they can finance new

SOUTHWEST

ARTICLE 2

Ark. • Colo. • Kan. • N.M. • Okla. • Tex.

TRENDS IN THE REGION

Privatization Can Be Downgrade Vaccine

By Julie Carrick Dalton

While privatizing government services rarely enhances the credit ratings of debt issuers, it may redeem some municipalities in danger of rating downgrades, rating analysts said.

Movements to privatize have gained momentum across the country since the early 1990s, as governments find privatization can reduce labor costs by cutting unneeded jobs and reducing fringe benefits.

Especially in the Southwest, where unions are weaker, privatization faces little resistance and will probably increase, said Ken Gear, associate director at Standard & Poor's Corp.

When Tarrant County, Tex., privatized jail functions, the county did not save a substantial amount of money, nor has it improved its AA-plus rating from Standard & Poor's or its Aa1 from Moody's Investors Service. But services and efficiency of the jail improved, said Peter D'Erchia, a tax-based analyst with Standard & Poor's.

Although the county had been operating with about a \$23 million annual surplus, Standard & Poor's analysts noted a lack of cost-effective operations in jail management before

the privatization. The Corrections Department faces losing more revenue next month when the state cuts off payments for housing state prisoners in county jails, D'Erchia said.

"There are several counties who will have fairly large holes in their budgets," D'Erchia said. Tarrant County's move to privatize was a defensive ma-

'There are several counties who will have fairly large holes in their budgets. ... If they didn't privatize, the rating would go down,' says S&P's Peter D'Erchia.

neuver and may have prevented a rating downgrade, he said.

D'Erchia said that in some rare instances privatizing can boost ratings.

"But it happens more often in the reverse," D'Erchia said. "If they didn't privatize, the rating would go down. It's about at least maintaining a rating."

Dallas is soliciting bids to privatize the Dallas Convention Center, which has been losing money consistently, said Convention Center director Frank

Poe. Bids for the contract are due Aug. 25 and a selection will be made soon after, he said.

Poe said he visited several similar convention facilities where privatizing had increased revenue. The Colorado Convention Complex in Denver saw \$700,000 in savings last year as a result of privatizing, Poe said.

Privatizing would not affect the \$200 million in revenue-backed outstanding debt issued on behalf of the Convention Center, Poe said. But it would stem the tide of red ink; during the last fiscal year, the convention center lost \$1.1 million on revenue of \$3.5 million.

Ken Thornton, executive director of the Montgomery County, Tex., Hospital Authority, said the decision to privatize the Conroe Medical Center in

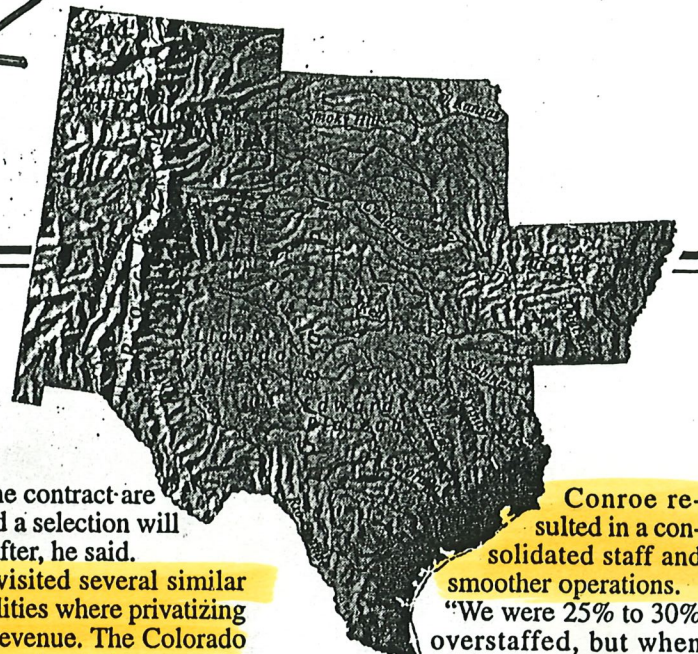
Conroe resulted in a consolidated staff and smoother operations.

"We were 25% to 30% overstaffed, but when you're in a public office it's hard to cut jobs and then try to run for office again and expect to win. This took it out of the political limelight," Thornton said.

"We were tarred and feathered locally, but nationally, we won awards," Thornton said, referring to the 1994 award given by the National Council for Public-Private Partnerships. The Hospital Authority now is privatizing its emergency medical services, Thornton said.

Based on the hospital's financial success, which resulted in \$29 million of initial savings, Thornton said he is optimistic that the emergency service privatization will save taxpayers \$2 million to \$3 million per year.

"I think government should be a purchaser of services. Private industry is a lot more creative and resourceful," Thornton said. □



SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 5-6

MARKET

Pickup in Activity Expected to Follow

Southwest Invisible Supply

Issuer and purpose
Arkansas

Amount

Approval status

Underwriter
Expected
choice sale date

ARTICLE 3

HUD

(1)



U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Delivering Municipal Services Efficiently

A Comparison of Municipal
and Private Service Delivery

Summary

A. PRINCIPAL FINDINGS

Eight local government services were studied. Data on the cost, level of service, scale of output, quality of service, management practices and technology utilization were obtained from ten cities contracting for each service and from ten cities providing each service with municipal employees. All cities were located in the Los Angeles Standard Consolidated Statistical Area. In all cases, the cost of contractor provided service included not only payments to the contractor but also municipal contract monitoring costs.

The eight services studied are: street cleaning, janitorial services (building cleaning), residential refuse collection, payroll preparation, traffic signal maintenance, asphalt overlay construction, turf maintenance, and street tree maintenance.

Exhibit 1 provides a definition of each of the eight services studied. Also indicated on this chart is the average percentage of municipal non-capital expenditures which the cities in the sample devoted to this service. Of the eight services studied here, refuse collection represents, at 4.2%, the greatest component of the average city budget, while payroll preparation, at 0.4%, represents the smallest component of the average city budget.

The basic goal of the analysis was to proceed in three steps, answering the following questions, one per step:

- **QUESTION #1:** Is there a significant difference in the cost of service delivery between contract and municipal cities, when the influence of the scale of operations and the level of service provided is removed?

ANSWER: For all services except payroll preparation, municipal service delivery is, on average, significantly more costly than private contractor service delivery. Municipal provision of service ranged from 37% (street tree maintenance) to 96% (asphalt overlay construction) more costly than contractor service delivery.

- **QUESTION #2:** Do differences in the cost of service delivery by contractors as compared to municipal employees arise because of differences in the quality of service provided?

ANSWER: No statistically significant differences in the quality of service provided by contractors as compared to municipal agencies was found for any service studied.

- **QUESTION #3:** What management or technology factors account for differences in the cost of service delivery (and, particularly, what factors could be implemented by a locality which did not wish to contract out)?

ANSWER: In comparison to municipalities contractors tend to: 1) require more work from their employees, offering equivalent salaries but less liberal vacation and leave; 2) use the least qualified

personnel able to perform each task; 3) use part time (not receiving full fringe benefits) labor wherever appropriate; 4) require that managers be responsible for equipment availability as well as labor availability; 5) allow first line supervisors hiring and firing authority; and 6) use a less labor intensive means of providing each service. These findings hold true across the services taken as a group. Additional findings pertaining to the individual services studied are outlined in Section F.

The preceding questions and answers provide but a glimpse of the findings of this project. Of obvious interest to local officials interested in evaluating how their city measures up are the basic data themselves. These data are presented in the following section.

B. SERVICE DELIVERY -- BASIC DATA

In this section, basic data are presented for each of the eight services studied. All cost data are for fiscal 1982. City officials may be interested in comparing the achieved efficiency (measured in non-monetary terms) in their city to that of the cities studied here. Additionally, comparisons of the level of service provided can often provide the starting point for an overall evaluation of service delivery.

Section #1 highlights data on unit costs, level of service, and quality of service. Section #2 shows how contract and municipal costs break down into such components as labor, depreciation, and fringe benefits; also presented here are comparisons of contractor and municipal wage and fringe benefit payments.

1. Cost, Level, and Quality of Service

For this project, it was sometimes necessary to define new measures of the level of service provided or the scale of output. For janitorial services, for example, the level of service was defined as the sum of the standard time (obtained from industry associations) which would be required to perform all cleaning services required/performed by the city, taking into account the frequency of each cleaning activity, divided by the number of square feet of floor space in buildings cleaned. This measure allows one to compare a city where janitorial services include floor cleaning, furniture dusting, window washing and kitchen cleaning to one where janitorial services consist of floor cleaning only. The sample average level of service for janitorial services is 34.04 minutes per thousand square feet. Street sweeping is a more straightforward example. Here, the level of service is the number of times per year streets are cleaned. The output variable is the curb miles swept, which equals curb miles swept times frequency of sweeping. Exhibit 2 defines the preferred scale and level of service measures for each service.

It is possible to define various measures of the efficiency of service delivery. An obvious measure is the cost per unit of output. Another attractive efficiency measure is the full time equivalent labor hours required per unit of output. These measures, while attractive, do not control for level of service.

EXHIBIT 7: Results of Cost Comparisons Holding Other Factors Constant

Service	Percent Difference		Variable Controlled For			Percent of total cost explained
	MU-CO	Scale	Level of Service	Quality	Condition	
Street Cleaning	43%	Curb miles cleaned/year*	Times cleaned per year	Rating -- block faces	Retail sales/curb mile	86%
Janitorial	73%	Square feet in buildings to clean*	Standard time per square foot	Quality rating -- cleanliness	NA	92%
Refuse Collection (residential)	28-42%	Cubic yards of refuse collected	**Refuse/household	Quality rating (lids replaced, etc.)	Population/curb mile*	98%
Payroll	None	# of checks issued*	% salaried	% with errors	NA	83%
Traffic Signal	56%	# of intersections maintained*	# preventive maintenance visits/intersection/year*	# of items in need of repair	NA	93%
Asphalt Overlay Construction	96%	Tons of asphalt laid*	% with reinforcing material*	Rating (cracks, etc.)	NA	93%
Turf Maintenance	40%	Acres mowed*	# of activities*	Rating -- visual	% of area with no problems*	83%
Street Tree Maintenance	37%	# of tree trimming visits*	Weighted level of pruning*	Rating -- by arborist	# of activities performed	89%

*Variable is significantly related to total cost.

**All cities studied had once a week curb or alley refuse collection.

City Clerk, Administration Mgr

708

ARTICLE 4

Folks get their tax \$\$ back in best-run town in America

Crestwood, Ill., is the best-run town in America — because it operates just like a business.

That's what residents of the 12,000-population town say about their home, which is run so efficiently that this year citizens are receiving a 26 percent rebate on their property taxes.

What's more, the town is so well-off that residents over age 55 get free household repairs and their shrubs cut for free!

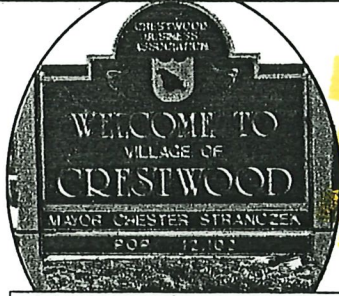
The super-efficient government may soon be able to totally eliminate property taxes!

"I've had my business in Crestwood for eight years and it's the best town in the U.S.," declared restaurant owner Joe Cistaro.

"Mayor Chester Stranczek's philosophy is simple — he contracts out everything.

"And our police are under or-

Real friends are those who see heart to heart even when they don't see eye to eye. — Herm Albright



HAPPY town of Crestwood, Ill., has a secret.

ders not to clog our court system by chasing after speeders hoping to get a \$50 fine. They're told to give speeders a severe warning and then get on with the business of fighting serious crime. So there is almost no crime!"

Stranczek, 64 — a trucking company owner — has been Mayor of this town 25 miles south of Chicago since 1969.

"Businesses don't become successful by running at a loss," he said.

"When I became Mayor we scrapped the huge Public Works Department that handled water

main leaks, etc. We simply contracted these problems out to private contractors.

"So instead of having a bunch of workers sitting around when it was raining, collecting wages, insurance and medical benefits, plus machinery like backhoes rusting, we hired firms to do the work. The savings are fantastic.

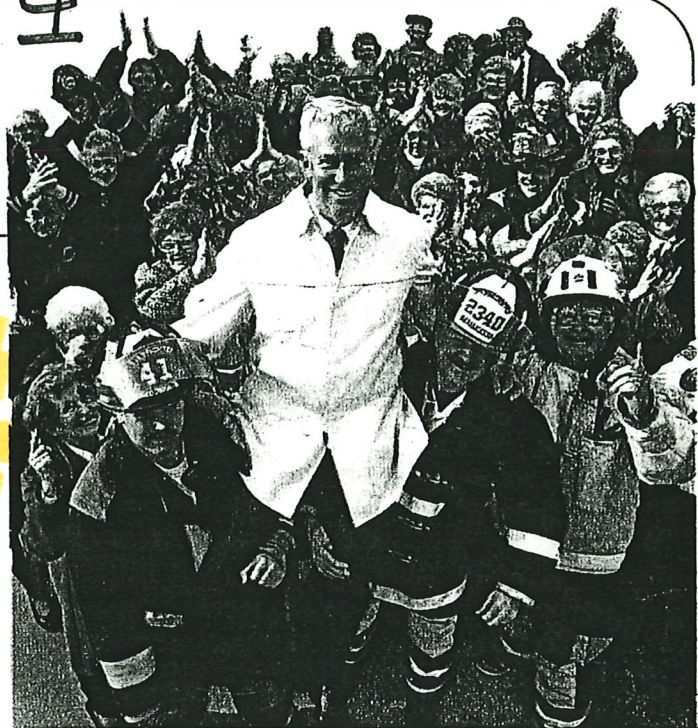
"The same goes for book-keeping. We simply pay an auditor \$8,000 a year to do the work. Savings: maybe \$35,000 a year."

Thanks to efficient government, there's plenty of money to pay for needed services, said Mayor Stranczek.

"We have only three full-time policemen. But we have 40 part-time officers who live in Crestwood and put in 10 to 12 hours a week patrolling the streets. As a result we have one of the safest towns in America.

"This year alone we've given our taxpayers a \$1 million rebate. When you pay your taxes in Crestwood, you get a 26 percent rebate.

"And because of the sales taxes we're getting from new busi-



TOWNSPEOPLE CHEER Mayor Chester Stranczek after the city gave them a \$1 million tax refund.

nesses moving into this desirable area, we hope that within four years, homeowners will have NO property taxes!"

Incredibly, Crestwood has just 17 full-time employees, compared to a nearby town of the same population that has about 150 workers.

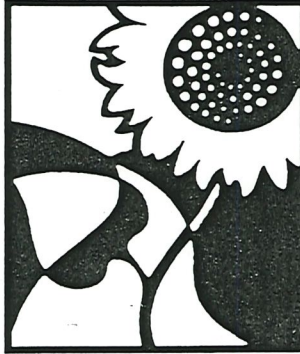
"Our budget is \$2 million a

year while a town of similar size, with 12,000 people, might have a budget of \$10 million!" said City Director Frank Gassmere.

Added Mayor Stranczek: "Folks are happy here — and I intend to keep them that way."

— JAMES McCANDLISH

SENATE TRANSPORTATION
DATE: 2/13/94
ATTACHMENT: 5-11



KUTC Newsletter

Spring 1995

A Local Technical Assistance Program of The University of Kansas Transportation Center
In cooperation with Kansas Department of Transportation and Federal Highway Administration

JUN 20 1995

Issue on public works management

Public/Private Works

Contracting with private companies for some of your public works services can make good sense.

by Teresa Blake

Privatizing can allow public agencies to get more work done when crews are stretched to the maximum. Privatizing is the process of hiring private contractors to perform certain activities normally done by the agency's crew. These tasks can include snow



removal, signing, road-marking, installing traffic control devices, pothole repair, bridge painting, street sweeping, and bridge inspection.

Today privatizing is becoming common in all levels of government in the United States, but most is carried out at the local level.

Privatizing on the Rise

Several factors have led to an increase in privatizing. Development has spurred the use of private contractors, especially in areas where there is rapid urban or suburban growth. Occupational safety and environmental regulations have also helped encourage privatizing—using private contracts helps reduce some of the agency's own paperwork involved with these regulations.

Benefits to Local Agencies

Privatizing can save you money. In a recent *Better Roads* survey of agencies that have privatized some of their services, 25.9% said that contracting the services costs the same as their in-house crews and 38.7% reported reduced costs. The main reasons for savings are reduced costs both for labor and equipment ownership or leasing. This is especially true in cases where jobs are done only occasionally. Contract maintenance also reduces in-house liability.

In the *Better Roads* survey, 93.8% of the counties surveyed rated the privatized services as "good." State and city engineers were also pleased. Around 66.5% of the state engineers and 52.4% of the city engineers rated their contracted work as good. Most of the contracted work was for bridge painting and chipseal/surface treatments.

Be Choosy

Privatizing does have a few drawbacks you should be aware of. You will not have the same measure of control over day-to-day operations that you would normally have with your own in-house crew. Some contractors, if left unsupervised, will take short-cuts and use inferior materials. Accepting the lowest bid can mean sacrificing quality for cost. Some agencies have been displeased with poor work, delays, and

In this Issue

- Privatizing and Partnering Overview
A Contractor's View
- Buying or Leasing
- Skills for Providing Constructive Criticism
- FHWA's "Red Light Running" Campaign
- Risk Management in Public Works
- Keeping Good Employees from Jumping Ship
- Ten Commandments of Political Engineering
- Results of KUTC Reader Survey
- KDOT Korner
State Level Partnering
KARS Data Now on Disk
- Leg Up Column: Bicycling and Liability
- Regular Features:
Video Reviews
Calendar
Free KUTC Publications and Videos
KUTC Contacts

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 5-12

2

S-t-r-e-t-c-h Your Road Maintenance Budget—Go Private

by Don Walker
President, Kentucky Crushed Stone Association

Using private contractors, you can fix your roads for less money—it's that simple.

Knowing that I'm the president of a private industry association, you'd expect that to be my view. But it's not mine alone. City and county engineers around the state agree that for road maintenance jobs other than fixing potholes and mowing, private contractors can do more for less.

Nationally (and not just in Kentucky) the trend is toward privatization. Most state transportation agencies use private firms for some kind of road work. Essex County in Massachusetts recently privatized its highway maintenance work, realizing an immediate savings of \$12 million and an annualized savings of \$7 million.

But why shouldn't a local government do its own road work? First of all, road maintenance equipment such as rollers and pavers are expensive to buy—\$100,000 to \$200,000. If your city or county cannot keep this equipment in constant use for several months out of the year, it's not economical for you to purchase it. It just does not make sense to have equipment worth hundreds of thousands of dollars sitting in a storage yard collecting dust and decreasing in value.

Be aware that maintaining this equipment carries a high price tag, too—especially if it's older.

Private Firms Save Money for Bowling Green

William B. Hays, Jr., the public works director and city engineer in Bowling Green, cited cost savings as the primary reason his city contracts out most paving work.

Hays said that if Bowling Green did its own paving, it would need, first, to buy enough trucks to haul asphalt. It would also need a tight agreement with

the asphalt plant to get those trucks loaded before others, to save the drivers and the paving crew a potentially long wait. Finally, the city would need to buy a paver, several rollers and probably a grader—plus a great deal of support equipment. (The scenario is similar for concrete work.)

There was no way we could buy that kind of equipment and keep it busy.

William B. Hays, Jr.
City Engineer, Bowling Green, KY

"Unless a city or county government is geared up to lay pavement four or five months at a time nonstop, and has a very tight agreement with the asphalt plant, government is going to be hard pressed to do the work at the same economy that a contractor can," Hays said.

Bowling Green recently awarded the job of painting center lines to a private firm, after years of having city employees do it.

"When we looked at the cost of replacing the striper, it was so expensive and so time-consuming in labor that it was cheaper for us to hire private," Hays said. "It turned out that we had a couple of local companies that had just bought new equipment. There was no way we could buy that kind of equipment and keep it busy."

Personnel Costs are Lower for Private Firms

The cost of running equipment is not just in the equipment itself—there's cost of employees, too. Finding qualified operators is not easy, and giving a state-of-the-art grader to an inexperienced operator will jeopardize the equipment and the quality of the job done.

Hiring a private firm means you have workers on the payroll only

they are needed—it's like turning a tap on, then off again. The headaches about taxes, overhead, personnel conflicts, and insurance are all dealt with by the private contractor.

Because private firms can be more flexible than government (about hiring seasonal labor, for example), private businesses generally have lower costs per employee, too, in both payroll and insurance.

Paducah's director of public works, David Harvell, said that in his area, private firms can do paving work for about a third of what it would cost him using city employees.

Hire Experts

Just as important, he added, is that by hiring a private firm, he can hire special expertise. His municipal workers do "a little bit of everything. But the private contractors' sole reason for existing is to lay pavement, so they become professional in the area," he stated.

One final point: hiring a private firm doesn't mean hiring just anyone who owns a piece of equipment. You want to use contractors who can do the job—and do it right. Hire a firm that uses the proper equipment, run by qualified operators, and which has the financial strength to see a job through.

Following this guideline, you can have confidence that by hiring a private contractor to do your road maintenance work, you are getting high-quality roads for less money. In these days of tight budgets, unfunded federal mandates, and ever-increasing competition for spending priorities, a private contractor can help you make your budget work harder. That's good for everyone.

Adapted with permission from *The Link*, Kentucky Transportation Center, Vol. 10, No. 2, October 1994.

Not Contractors

Not Contractors

ARTICLE 5-A OREGONIANS for COST-EFFECTIVE GOVERNMENT

P.O. Box 384 • Lake Oswego, OR 97034 • (503) 636-4003

January 5, 1986

2

COST-EFFECTIVE GOVERNMENT BY CONTRACTING WITH PRIVATE BUSINESS

As costs of government continue to rise in many areas, causing a taxpayer's revolt and threatening the economy as well as priority programs, evidence rolls in to show that cost-effective alternatives are available. We can have the services we need at a price we can afford.

One such alternative is called privatization. When government turns to private firms for what they do best, either by outright ownership or by contracting, we taxpayers can be the big winners. At the same time, we can give a boost to the innovative and competitive private firms upon which the future of our economy depends.

Jackson County, Oregon, saved \$118,000 in its first contract for Crash Fire Rescue service at the city-county airport, one of many steps taken in the last four years to increase the cost-effectiveness of county services in the face of major cuts in timber revenues. Salem, Oregon, exposes the city's in-house staff to competition from private firms. If a service can be done more cost-effectively by contract, the private firm wins the bid. Over \$2 million in services, such as building security, janitor service and park maintenance, were contracted-out in 1985, in addition to \$26 million for construction of major public facilities.

Portland contracts-out for food service in its new jail, for parking garage management and security for special events, for youth center management and for other services, in addition to public works projects. Tualatin contracts for police service and thus can choose between adjacent counties for the quality and cost of service it will purchase. North Bend and other school districts are served by private school buses. Phoenix, Arizona, saves 54% by contracting for dial-a-ride taxis as a substitute for large bus service on Sundays and in low density areas. A recent study in matched California cities, prepared for the U.S. Department of Housing and Urban Development, revealed that cities could expect to save 42% by contracting-out janitorial service, 29% on contracted refuse collection, 36% on traffic signal maintenance, 30% on street cleaning and as much as 49% by contracting with private firms for asphalt street paving.

Interviews reveal that governments who use contracting successfully, while remaining accountable to the taxpayers for quality as well as for costs - take four essential steps. They discover (1) the real costs of providing the service in-house (cost allocation to reveal both direct and indirect costs), so that public officials have adequate financial information to set priorities among service levels and to make contracting decisions.

To hold officials, public employees and contractors accountable for quality and for bottom line costs, successful officials (2) develop clear specifications, (3) assign monitoring responsibility to accountable public employees, and require performance bonds and other contract provisions to assure specifications are met. With these assurances in place, they (4) assure choice and competition between service providers, public and private. That's how they provide the services taxpayers want at a price we can

SENATE TRANSPORTATION

DATE: 2/13/96

ATTACHMENT: 5-14

ARTICLE 6-B

78

APPENDIX

33 STATES

STATE	STATUTE	REQUIRED- CONTRACT IN EXCESS OF	COMMENTS
ALASKA	ALAS STAT §35.15.010 (1976)	\$20,000	All public works – subject to “best of interest of state.”
ARIZONA	ARS §11-254 (1977)	\$ 1,500	County building repair or alteration.
	ARS §18-217 (1975&1977 Supp.)	\$10,000	County highway construction or reconstruction.
	ARS §35-460 (1974&1977 Supp.)	ALL	Contracts for erecting a public building if bonds are issued.
CALIFORNIA	CAL STS & HY CODE §27173.5 (1969&1977 Supp.)	\$ 5,000	Street & highway repair maintenance and alteration.
	CAL GOV CODE §14256 (1963&1978 Supp.)	\$15,000	State construction projects – subject to directors decision, to use day labor up to \$35,000.
	CAL GOV CODE §25541.5 (1968&1978 Supp.)	\$ 4,000 to \$10,000	Counties 500,000 or less informal or formal bidding.
		\$10,000	Formal bidding procedures.
	CAL STS & HY CODE §1325 (1969&1978 Supp.)	\$ 2,000	County bridge repair subject to §1325.5 board of supervisors discretion for contracts under \$10,000.
DELAWARE	DEL CODE, Tit 9 §314 (1975&1977 Supp.)	\$ 2,500 \$ 500	New Castle County, Kent or Sussex Counties
DISTRICT OF COLUMBIA	D.C. CODE §7-601 (1966&1977 Supp.)	\$ 1,000	Street and sewer repair.

STATE	STATUTE	REQUIRED- CONTRACT IN EXCESS OF	COMMENTS
HAWAII	HRS §103-22 (1976)	\$ 8,000 \$ 4,000 - \$ 8,000	Public works & contracts. Informal procedure.
IDAHO	IDAHO CODE §31-4003 (1963&1978 Supp.)	\$ 5,000	County contracts.
	IDAHO CODE §40-802 (1977,1978 Supp.)	\$ 5,000	Bridge construction repair.
	IDAHO CODE §40-1003 (1977&1878 Supp.)	\$ 5,000	Highway contracts.
ILLINOIS	IRS Ch. 34 §2734 (1960&1978 Supp.)	ALL	County work paid for by special assessment.
INDIANA	IND CODE §5-16-1-1 (1974&1978 Supp.)	\$ 5,000	Public works, subject to exceptions - \$50,000 for public utilities & state educational institutions.
	IND CODE §19-6-3-17 (1974&1977 Supp.)	\$ 1,000	Evansville Airport Authority improvements.
IOWA	IOWA CODE §23.18 (1978)	\$ 5,000	Construction, repair or demolition of public improvements.
	IOWA CODE §332.7 (1977&1978 Supp.)	\$ 5,000	County and township buildings.
LOUISIANA	LRSA §38:2211 (1968&1978 Supp.)	\$ 2,500	Public contracts
MAINE	ME REV STAT, tit 5 §1745 (1964&1977 Supp.)	\$25,000	
	ME REV STAT, tit 23 §753 (1965&1977 Supp.)	ALL	State highway construction, maintenance and repair.
	ME REV STAT, tit 23 §3053 (1965&1977 Supp.)	\$1,000	Highway bridges.
MARYLAND	MD ANN CODE, art 25 §37 (1973&1977 Supp.)	ALL	Bridges.
MASSACHUSETTS	MASS ANN LAWS, ch. 81 §8 (1978)	ALL	State highways.

STATE	STATUTE	REQUIRED- CONTRACT IN EXCESS OF	COMMENTS
MICHIGAN	MICH COMP LAWS ANN §224.19 (1967&1978 Supp.)	\$ 5,000	County roads: Commission left option to do work by day labor, but must justify.
	MICH COMP LAWS ANN §108.5 (1967&1978 Supp.)	\$ 500	Construction or repair of public works.
MISSOURI	MO ANN STAT §68.055 (1966&1978)	\$ 2,500	Port authority contracts.
MONTANA	MONT REV CODE ANN §32-4102,32-4201 (1961&1977 Supp.)	\$ 1,000	State & county road contracts.
	MONT REV CODE ANN §82-1131 (1961&1977 Supp.)	\$10,000	State building construction and repair.
NEVADA	NEV REV STAT §403.490 (1973)	\$ 500	County bridges.
NEW HAMPSHIRE	NH REV STAT ANN §228:4 (1955&1973 Supp.)	\$ 5,000	Public works & highways.
NEW MEXICO	NM STAT ANN §55-3-14 (1962&1975 Supp.)	\$ 500	County roads and bridges
NEW YORK	NY HIGH LAW (McKinney's) §38 (1962&1977 Supp.)	ALL	State highway construction and improvement.
NORTH CAROLINA	NC GEN STAT §143-129 (1978)	\$10,000	Public contracts.
NORTH DAKOTA	ND CENT CODE §48-02-02, 48-02-03 (1976&1977 Supp.)	\$25,000	Public buildings.
	ND CENT CODE §11-11-26 (1976&1977)	\$ 2,500	County buildings construction.
OHIO	OHIO REV CODE ANN §307.86 (1953&1977 Supp.)	\$10,000	County contracts.

STATE	STATUTE	REQUIRED- CONTRACT IN EXCESS OF	COMMENTS
OKLAHOMA	OKLA STAT ANN, tit 70, §5-123 (1972&1977 Supp.)	\$ 2,000	School district construction contracts.
	OKLA STAT ANN, tit 69, §633 (1969&1977)	\$ 2,500	Culverts & bridges.
	OKLA STAT ANN, tit 19, §410.9 (1962&1977)		Penalty for splitting contracts to avoid bidding requirements.
PENNSYLVANIA	PA STAT ANN, tit 71 §637 (1962&1977 Supp.)	\$25,000	State improvements.
RHODE ISLAND	RI GEN LAWS §24-8-102 (1968&1976 Supp.)	ALL	State road construction.
SOUTH CAROLINA	SC CODE §1-466 (1962&1975 Supp.)	\$10,000	Public buildings constructed with state funds.
UTAH	UTAH CODE ANN §27-12-108.j, 108.l (1976&1977 Supp.)	\$40,000	State highways, B and C class road construction.
	UTAH CODE ANN §53-11-1 (1974&1977 Supp.)	\$20,000	School houses.
VIRGINIA	VA CODE §33.1-185 (1976&1978 Supp.)	\$200,000	Projects of the State Highway and Transportation Commission.
WASHINGTON	RCW 39.04.020 (1972&1978 Supp.)		Requires publication of estimate of cost and description of work if public work with an estimated cost of more than \$2,500 is to be done other than by contract.
	RCW 35.22.620 (1965&1978)	\$10,000	First class city public works contracts.
	RCW 35.23.352 (1968&1978 Supp.)	\$15,000	Water mains.
	RCW 47.28.030 (1970&1978 Supp.)		Second, third & fourth class cities public works.
	RCW 47.28.050 (1970&1978 Supp.)	\$ 7,500	State highway forces may do work up to \$15,000. Subject to previous provision work valued in excess of \$7,500 must be advertised.

STATE	STATUTE	REQUIRED- CONTRACT IN EXCESS OF	COMMENTS
WEST VIRGINIA	W VA CODE §5-6-7	\$ 2,000	State building commission.
WISCONSIN	WISC STAT ANN §83.04 (1957,1978 Supp.)	ALL	County highway committee work subject to decision to do work itself.
	WISC STAT ANN §62.15 (1957,1978 Supp.)	\$ 5,000	Municipal public construction.
	WISC STAT ANN §30.32	\$ 2,500	Harbor facility.
		\$ 5,000	If work is to be done by floating marine equipment.
	WISC STAT ANN §59.08 (1957&1978 Supp.)	\$ 5,000	Public work by municipalities.
	WISC STAT ANN §16.855 (1972&1978 Supp.)	\$30,000	State projects.

ARTICLE 6C

(A)

CONCLUSION

TAX
E. 7:1

It is at once conceded that this study has not been exhaustive of the construct by contract issue. To conduct a comprehensive analysis of all facets would require a large staff, substantial resources and very considerable time. Nevertheless, certain conclusions seem clearly to emerge from the information that has been reviewed.

Many states steer clear of the complexities involved in comparing public versus private costs by simply requiring, generally with very few exceptions, that substantial work on public improvements shall be contracted out to private concerns. The delineation of work that may be performed by the agencies is clean and quick: all work in excess of the "trigger" amount in the statute *must* be contracted out. The states using this approach are listed in the Appendix. The average "trigger" amount of the 61 statutes set forth in the Appendix is \$7,800. Thirty-eight of the 61 statutes listed have limits of \$5,000 or less; all but three set the limit at \$25,000 or lower. Only one of the 61 has a statutory figure as high as the \$50,000 figure used in Oregon.

Although the mandatory contracting out approach has the attraction of simplicity, Oregon's policy of prescribing that the choice between public and private shall be made on the basis of least cost, seems preferable, especially from the taxpayer's standpoint. The present policy in this regard should be retained.

Because "least cost" is the soundest policy from the taxpayer's point of view, its applicability should be broadened. This should be accomplished in two ways: the "trigger" amount, now \$50,000, should be lowered, at least to \$25,000, or even to \$10,000, so that more work is subject to competition and to the "least cost" requirement. In addition, *all work* over the stipulated amount should be exposed to competition, without arguing whether the work is new construction, maintenance, repair or alteration. If \$5,000 or \$10,000 limits are workable for mandatory contracting out statutes, surely limits of that order are not unreasonable if we are only requiring that the agencies open the work to competition by securing private contractor bids. **Fear of competition does not justify perpetuating inefficiency; if public agencies cannot do the work for less cost, they should not do the work. It is that simple. The people of Oregon support this concept. When polled, they said by a 66% to 10% margin they think obtaining private contractor bids should be a prerequisite to performance of public works projects.**

The objective of determining which method is least costly, as set forth in ORS 279.023, is not being achieved and, in this respect, the present law is a failure. The cause of failure is easily identified: it lies in inadequate public agency accounting practices, which cause distortions in cost records and which erroneously indicate that

are lower than they really are. We have illustrated some of these distortions. Use of a composite Workers' Compensation rate in reporting costs, for example, is such a distortion; it is a "shortcut" which may be entirely reasonable for some accounting purposes but which, nevertheless, results in very misleading appearances so far as *cost accounting* is concerned.

Use of equipment rental rates that are far too low to cover all ownership and operating costs is one of the most serious cost distortions found in agency cost reports. In spite of the fact that the present law specifically requires inclusion of *all ownership costs* in the rental rate, most agencies either are ignorant of the law or simply ignore it. Some rates used by public agencies are only 25% of what the Highway Department has determined to be reasonable for such equipment. To correct this problem, the Public Contract Review Board should work with industry and sophisticated agencies, such as the Highway Department, to develop and publish rates that cover all such costs and their use in agency cost calculations should be required.

The present law is also abused by the failure or refusal of agencies to include all overhead costs in their cost accounting records. Perhaps this is due to the fact that they don't know how to calculate such costs and apply them to project costs. Again, they should be assisted in complying with the law by having the PCRB develop guidelines in this area. However, so long as an agency can get by using a 4% overhead factor after its own accounting consultants determine that its actual overhead is on the order of 35%, the objective of determining "least cost" is thwarted. Someone must have authority to investigate such abuses and to protect the public interest. The PCRB is the logical body to vest with such authority.

The first step in implementing the policy of "least cost," then, is to correct the serious accounting deficiencies that now exist. But even when the accounting procedures are revised, there still are other matters that must be considered and "cranked" into the cost

comparisons. Surely some value should be allowed in the comparison for the protection afforded by the Payment and Performance bond that we require private contractors to furnish. The bond costs about 1% of the project price and assures that the work will be properly performed, completed on time and all accounts, including taxes, will be paid. In addition, we acquire the right to collect damages from the private contractor if he is late completing the work, require him under the warranty clause to repair defects that show up, and obtain virtually total protection against any wage or material price increases after the contract is awarded. The public agency gives us none of this protection; the costs of mistakes, late completion, poor workmanship and price increases are borne by the taxpayers. Elimination of these contingencies should be accorded some value when we compare public and private prices on a given job.

Analysis of a hypothetical project discloses that a contractor pays back to the public in taxes about 8% of the project cost. This money comes "off the top" of the bid, is returned to the public and may be re-spent on yet another project. The recycling of these taxes produces a benefit greater than the initial amount of the taxes. Economists seem to agree that the actual benefit is on the order of 1.3 times the tax sum, or about 11% of the project cost. In other words, a project bid at \$100,000, after consideration of taxes returned to the public, costs the public only about \$89,000. Taxes handed back to the public should not be regarded as a "cost."

Unless the minimum wage law is repealed, some value should be assigned to the higher wages that government dictates the private contractor must pay when working on public improvements. We have seen, for example, that a private contractor must pay \$16.00 per hour for a backhoe operator, whereas the county is only required to pay \$9.93 for the same worker, a difference of nearly 40%. On a project where one-half the total cost is for labor, the agency enjoys an artificial cost advantage of about 20% because of this factor alone. It is irrational for

TESTIMONY TO THE SENATE COMMITTEE ON TRANSPORTATION AND
UTILITIES

CHAIRPERSON BEN VIDRICKSEN

ROOM 254 EAST

PROPOSED SENATE BILL 548

FEBRUARY 13, 1996

9:00 A.M.

BY JAMES T. PERRY
RENO COUNTY COMMISSIONER

Chairman Vidricksen and members of the Senate Committee on Transportation and Utilities:

My name is James Perry and I am a member of the Board of Commissioners of Reno County. I appreciate your allowing me the time to address this committee on SB 548 which will directly impact a county's ability to allow the local governing body the option to build a road, a bridge, or to even make major repairs to a road or bridge if that cost will exceed \$10,000.

Some areas of service delivery can be enhanced by privatization. But the result of this proposed bill is not one of those areas.

If this bill is passed as proposed, many day-to-day functions would be virtually at a stand still, such as:

- * Channel improvements to bridges
- * Bridge construction
- * Repairs and improvements to culverts and bridges
- * Road construction or reshaping of roads
- * The patching of asphalt roads and overlay of those same asphalt roads
- * Chip sealing of asphalt roads
- * Paint striping of center lines and edge lines

In conclusion, it is imperative for county local government to have the flexibility to serve the local people in a cost effective manner. Local county commissioners can continue to attend to the business of maintaining county roads and bridges if the statutes remain as they are at the present time. Reno County does not need this legislation, nor does the remainder of the counties in Kansas. SB 548 must be opposed and not allowed to pass out of committee.

FILED

SB 548

2

Session of 1996

FEB 01 1996

SENATE BILL No. 548

Robinson L. Wherry
COUNTY CLERK

By Senator Harris

1-29

9 AN ACT concerning counties; relating to road work; amending K.S.A.
10 68-520, 68-1104 and 68-1116 and repealing the existing sections.

11 *Be it enacted by the Legislature of the State of Kansas:*

12 Section 1. K.S.A. 68-520 is hereby amended to read as follows: 68-
13 520. The board of county commissioners ~~may shall~~, in constructing, sur-
14 facing, repairing or maintaining the county roads, *let contracts for such*
15 *work when the cost for any one project for constructing surfacing, re-*
16 *pairing or maintaining county roads shall exceed \$10,000. For any project*
17 *that does not exceed \$10,000, the county commissioners may* let contracts
18 for all or any part of such work, or said board may buy the materials and
19 contract all or any part of the labor, or may purchase or rent machinery
20 and other equipment, and employ labor, under the direction of the county
21 engineer: ~~Provided, That~~ Before beginning to construct, surface or repair
22 any road by day labor, the approved plans and specifications and an es-
23 timate of the cost must be filed in the office of the county clerk. On all
24 day-labor work the county engineer shall keep an accurate itemized ac-
25 count of the expenditures for labor, materials and work performed and
26 file a sworn statement of the same in the office of the county clerk at the
27 end of each month, and a final statement when the work is completed.

28 Sec. 2. K.S.A. 68-1104 is hereby amended to read as follows: 68-
29 1104. (a) The board of county commissioners shall construct, reconstruct,
30 repair and maintain all county bridges and county culverts located on
31 county roads and township roads and the cost of such work shall be paid
32 from the bridge fund of the county. All township culverts shall be con-
33 structed, reconstructed, repaired and maintained by the township board
34 of highway commissioners and the cost of such work shall be paid from
35 the road fund of the township. Except as hereinafter provided, all ap-
36 proaches to culverts and bridges on township roads shall be constructed,
37 reconstructed, and maintained by the township board of highway com-
38 missioners and the cost of such work shall be paid from the road fund of
39 the township, except that where the payment of the costs of constructing
40 such approaches has been authorized by a majority vote of the electors
41 of the county in which such township is located prior to the effective date
42 of this act, said cost of construction shall be paid from the county's bridge
43

1 fund, within the limit of moneys authorized by such election. The board
2 of county commissioners may elect to pay, from the bridge fund of the
3 county, for the construction, reconstruction or maintenance of any ap-
4 proach to a culvert or bridge on a township road, in which event the
5 township board of highway commissioners shall not be responsible there-
6 for.

7 (b) All projects for construction, reconstruction or maintenance of
8 bridges or culverts and approaches thereto as referred to in section (a) in
9 excess of \$10,000 shall be awarded on a public letting to the lowest re-
10 sponsible bidder. In determining the cost of any project for the purposes
11 of this section, the board of county commissioners or township board of
12 highway commissioners shall include, but not necessarily be limited to,
13 the cost of labor, equipment, materials and overhead.

14 Sec. 3. K.S.A. 68-1116 is hereby amended to read as follows: 68-
15 1116. Except as provided in K.S.A. 68-1114, nothing in this act shall pro-
16 hibit the board from buying materials and contracting all or any part of
17 the labor or purchasing or renting equipment to do the work by day labor
18 under the direction of the county engineer. Prior to beginning the con-
19 struction or repair of any bridge or culvert work by day labor the approved
20 plans and specifications and the county engineer's estimates of the cost
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22 shall keep an accurate itemized account of all expenditures for labor and
23 materials and work performed and file a signed statement of the same in
24 the office of the county clerk at the end of each month and final statement
25 when the work is completed. The provisions of this section shall not apply
26 to any work the estimated cost of which exceeds ~~five thousand dollars~~
27 ~~(\$50,000)~~ \$50,000.

28 Sec. 4. K.S.A. 68-520, 68-1104 and 68-1116 are hereby repealed.

29 Sec. 5. This act shall take effect and be in force from and after its
30 publication in the statute book.

SENATE TRANSPORTATION
DATE: 2/3/96
ATTACHMENT: 6-3

Reno County Public Works Department
 206 West First
 Hutchinson, Kansas 67501

MAJOR CONSTRUCTION PROJECTS
 (Greater than \$10,000)

1995			
<u>Project Location</u>	<u>Funding</u>	<u>Amount</u>	<u>% of R/B Budget</u>
Little River TWP, Mi-54.18 Bridge Replacement	County	\$221,213	4.5%
Albion TWP, Mi-75.25 Bridge Replacement	County	\$83,031	2%
Castleton TWP, Mi-100.90 Low Water Crossing	County	\$24,148	.5%
Medford TWP, Mi-15.10 Pipes	County	\$13,422	.25%
Roscoe TWP, Mi-29.27 Bridge Replacement	County	\$44,769	1%

1994			
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Haven TWP, Mi-6.46 Low Water Crossing	County	\$19,368	.5%
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Plevna Twp, Mi-63.4 Bridge Replacement	County	\$139,758	3.5%
Partridge Rd., Mi-22.98 RCB	County	\$88,433	2%
4th Avenue, Mi-21.8 RCB	County	\$77,067	2%

Reno County Public Works Department
 206 West First
 Hutchinson, Kansas 67501

CONSTRUCTION CONTRACTS

1995

<u>Project Location</u>	<u>Funding</u>	<u>Contract</u>	<u>County Share</u>	<u>% of R/B Budget</u>
56th Ave., Mi-26.70 Bridge Replacement	County	\$348,891	\$348,891	7%

1994

<u>Project Location</u>	<u>Funding</u>	<u>Contract</u>	<u>County Share</u>	<u>Budget</u>
Yoder Rd., Mi-17.99 Bridge Replacement	FA-80% County-20%	\$1,847,870	\$376,964	7.75%
Lorraine St., Mi-25 & 43rd St, Mi-31 Road Resurfacing	County	\$56,364	\$56,364	1%
Yoder Rd., Phase III Road Reconstruction	FA-80% County-20%	\$729,715	\$150,321	4%

TESTIMONY TO THE SENATE COMMITTEE ON TRANSPORTATION AND
UTILITIES

CHAIRPERSON BEN VIDRICKSEN

ROOM 254 EAST

PROPOSED SENATE BILL 548

FEBRUARY 13, 1996

9:00 A.M.

BY ROBERT P. FISCHER
RENO COUNTY COMMISSIONER

Chairperson Vidricksen and members of the Senate Committee on Transportation and Utilities:

My name is Robert Fischer and I am a Reno County Commissioner representing the Reno County Commission. I appreciate the opportunity to testify before this committee concerning Senate Bill No. 548, relating to certain contracts for roads, bridges and culvert work.

The current Kansas Statutes allows the Board of County Commissioners the flexibility to either let contracts for all or any part of the road, bridge and culvert maintenance and construction or allow the County Public Works Department to accomplish this work in house. When the word is changed from *may* to *shall*, the Board of County Commissioners loses the ability to make a decision at the local level that would most certainly impact the local taxpayers.

In conferring with George Sugars, our County Engineer and Public Works Director, the following services would be affected by the proposed change in Senate Bill No. 548 since they would exceed \$10,000:

- * Asphalt over lay and substantial patching of roads
- * Chip sealing of county asphalt roads
- * Paint striping (center line and edge line) of the roads
- * Mowing and spraying of road right-of-way
- * Road construction - reshaping our roads
- * Bridge construction and channel improvements
- * Bridge and culvert substantial repairs

We maintain 546 miles of county asphalt roads, 418 bridges, 670 structures under 20 feet in roadway length, and over 7200 road signs. We have one of the best Public Works Departments in the State of Kansas. This department has an excellent cost accounting system to ensure that we provide to our citizens an efficient and effective county transportation system.

In summary, the current statutes, as they currently stand, have worked and worked well for Reno County. The Board of Commissioners have the flexibility to provide the services to our local constituents at a reasonable cost. The proposed changes to this bill would prohibit an on-going maintenance program that allows our crews to go from one job to another without down time while waiting for a contract to be let on the next job. To conclude, I would sincerely suggest this proposed legislation *not* be enacted. All flexibility of the *local* government would be eliminated.

Session of 1996

FEB 01 1996

SENATE BILL No. 548

By Senator Harris
COUNTY CLERK

1-29

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26 *to any work the estimated cost of which exceeds ~~fifty thousand dollars~~*
27 *(~~\$50,000~~) \$50,000.*

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30 publication in the statute book.

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 7-3

Reno County Public Works Department
 206 West First
 Hutchinson, Kansas 67501

MAJOR CONSTRUCTION PROJECTS
 (Greater than \$10,000)

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Reno County Public Works Department
 206 West First
 Hutchinson, Kansas 67501

CONSTRUCTION CONTRACTS

1995

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Fax # (913) 235-8045



400 N.W. Curtis Street

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TOPEKA, KANSAS 66608-0128

TESTIMONY OF
MICHAEL WELCH
PRESIDENT OF BRB CONTRACTORS

BEFORE THE SENATE TRANSPORTATION COMMITTEE
REGARDING SENATE BILL 548
FEBRUARY 13, 1996

Thank you for the opportunity to appear before you today in support of Senate Bill 548.

I am Mike Welch, President of BRB Contractors, Topeka, and President of the Kansas Contractors Association, a group of contractors and businesses constructing roads, bridges, dams, water and wastewater infrastructure, airports, and other "heavy" construction. I also feel that our company may be indirectly supporting our opposition this morning by helping to pay the dues for the Kansas Association of Counties and the Kansas County Commissioners Association, two lobbying groups who do not agree with all of our beliefs, with a few dollars out of our mill levy.

First, attached to my testimony is an article from the Topeka Capital Journal noting that after Shawnee County commissioners privatized the Expocentre's business in mid-1992, the annual loss has dropped about half, and in 1995 taxpayers saved \$800,000. I believe that by contracting the majority of

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 8

its construction activities, our counties can save half of their construction costs overall.

Secondly, businesses are finding that by encouraging entrepreneurship, their success ratios profit. I feel that if the counties would bid more of their work to the private sector, small businesses would develop, flourish and improve the local economies. Some county employees would become a part of this private business system. In the private sector, there are thousands of very small construction businesses doing such things as remodeling homes, removing snow, doing janitorial services, and the like. They do not need a large administrative organization, and do just fine finding seasonal work.

Thirdly, supply and demand is a basic part of the free enterprise system. To believe that one can more efficiently maintain a workforce using government is flawed. The infrastructure requires so many manhours to construct and maintain. This holds true regardless who the employer is. More and more cities are contracting out operation of their water and sewage treatment facilities at reduced costs. The private sector has a strong incentive to manage its manpower needs.

Fourth, all businesses have planning and accounting systems. Our counties spend several million dollars. Accounting and planning will pay. Chain franchises provide computer hardware and software to allow even amateur managers to keep accurate records and inventories. With our present technology, an engineering company in Topeka, or an accounting company in Garden City could provide inexpensive plans and accounting services for

any county in the state.

Fifth, developing, supervising, and managing resources is a responsibility of management. The workforce should be adjusted to the needs of management. The private sector does a good job of this, and as taxpayers, I feel that we should expect our county friends to do the same. It is painful, but necessary.

Sixth, we are customers of the county government. Our infrastructure is in their hands. As customers, we should be able to request a price for something. When you buy a car, you don't go to the dealer, pick out a car, and ask for a billing at the end of the year. To do so would be absurd. The public utility monopolies in this state are implementing what we are talking about now. They are reducing their workforces and subcontracting out their construction and maintenance needs.

Seventh, if contractors, commissioners, staff, and businesses get their heads together, we can develop a plan that will benefit all. Our roles switch when dealing with each other. Part of the time each of our roles is that of customer, and part of the time it is that of the supplier. Small local contractors may never become members of our association, but they will become members of the free enterprise system. They will provide efficient services. We stand for this. We offer our services to scrutinize any existing accounting systems, to verify any claims or beliefs that the counties present today, to partner with our commissioner friends to develop the most efficient plan available, because after all, if we do not have an efficient system, other states and countries will put us all out of

business. Isn't that strange; counties' inefficiencies can put businesses throughout the state, even unrelated businesses out of business over the long term, so we are all in this together.

Thank you for this privilege to address you.

With record-low loss, Expocentre has best year ever financially

By BILL BLANKENSHIP
The Capital-Journal

1/18/96

The Kansas Expocentre broke the \$1 million mark for annual income in 1995 to finish the year with its best financial performance since opening in 1987.

That isn't to say the county-owned convention and entertainment complex recorded a record-low loss.

Instead, it completed the year with a record-low loss.

Shawnee County used to plow about \$1.4 million of tax money a year into the Expocentre to underwrite its operation when it was managed directly by the county.

In mid-1992, county commissioners hired Spectacor Management Group to oversee the

Chris Carpenter, Expocentre's general manager, said he and SMG had established for 1996 an 'aggressive budget which I feel confident the Kansas Expocentre staff can meet.'

Expocentre. Since the Philadelphia-based SMG took over management of the Expocentre, its annual tax subsidy has dropped about \$600,000.

Financial reports presented Wednesday to members of the Kansas Expocentre Advisory Board showed it cost the county \$318,372 to operate the Expocentre in 1995.

The county lost nearly \$1.6 million on the Expocentre in 1991, the last full year of opera-

tion before SMG was hired.

The financial reports show the Expocentre took in slightly more than \$1 million in income in 1995, up 9.3 percent over 1994. Expenses were up in 1995, as well, by 1.5 percent.

Chris Carpenter, the Expocentre's general manager, told the advisory board he and SMG had established for 1996 an "aggressive budget which I feel confident the Kansas Expocentre staff can meet."

Even so, the Expocentre isn't likely to be weaned from a tax subsidy any time soon.

However, defenders of the Expocentre argue its conventions, concerts and other events put people and their wallets into restaurants, hotels and retail shops. They look at the Expocentre subsidy as an economic development investment.

Public investment in the Expocentre also will continue beyond its annual operating expenses.

Commissioners this year approved borrowing \$300,000 to bring the complex into compliance with the Americans with Disabilities Act.

The county also remains responsible for other capital improvements and the purchase of equipment and machinery needed to operate the Expocentre.



PUBLIC WORKS DEPARTMENT

SALINE COUNTY HIGHWAY DEPARTMENT
3424 Airport Rd.
Salina, Kansas 67401

TO: Honorable Members of the House Transportation and
Utilities Committee

FROM: Jerry L. Fowler, P.E., Saline County Public Works Director

RE: Opposition To Senate Bill No. 548

DATE: February 12, 1996

Senate Bill No. 548 proposes amending K.S.A. 68-520, 68-1104, 68-1116, and repealing the existing sections.

The major proposed amendment is to K.S.A. 68-1104, Section 2, states that all county road projects "in excess of \$10,000 shall be awarded on a public letting." If this change should become law, each county would need to increase staff just to complete bid documents for bids, an expense that presently is spent on road maintenance. This issue is a local issue that is best handled by local elected officials. Counties are not opposed to privatization, but this bill does not promote privatization. It actually causes county forces to be less efficient in performing the daily duties as established by each county. Most counties are staffed according to their need based on wintertime operations. So the possibility of this bill reducing county maintenance employees is just not true. In fact, additional personnel would be needed to prepare projects for bidding and inspection of the contracted work. In 1993, Saline County awarded \$959,784 worth of asphalt patching and overlay work to private contractors. There was but one bidder for all of this work. In 1994, \$917,586 worth of asphalt patching and overlay work was awarded. Once again, only one bid was received. It is wrong to approve legislature that favors a special interest group at the expense of the county tax payers.

During 1992, a study was completed in Saline County comparing maintenance projects completed by county forces to like contractor completed maintenance work. Cost of work completed by county forces for asphalt patching was 53.4% less than contract work; for asphalt skin patching 13.1% less, and for bituminous seal costs 15.3% less. In every case county work was equal or better quality than the contracted work. Most counties rely on some support from private contractors for road maintenance and the need for state legislature to mandate compliance is not necessary.

In closing, this issue is important only to a special interest group. They should get out into the market place and work with the counties. Of the 105 counties, only 9 have a population greater than 50,000 and 32 counties have less the 5,000 population. The largest 15 counties in the state represents 45% of the total estimated tax levy dollars for road maintenance.

Your opposition to Senate Bill No. 548 will be appreciated. A special interest group has tried for over 5 years to have these sections amended and now is the time to end the debate with a defeat of this bill.



SALINE COUNTY

Board Meetings — Monday, Tuesday, Wednesday
Meeting Room 209 — Office Room 211 — 300 W. Ash

P.O. Box 5040
Salina, Kansas 67402-5040
Phone (913) 826-6540
Phone (913) 826-6541
FAX: (913) 826-6629

COMMISSIONERS:
Michael J. White
First District

Gary L. Hindman
Second District

Gene Revels
Third District

TO: Honorable Members
Senate Transportation and Utility Committee

FROM: The Saline County Board of Commissioners
Michael J. White, Chairman

DATE: February 12, 1996

SUBJECT: SB548

The Saline County Board of Commissioners are strong advocates of
NO MORE TAXES - NO MORE MANDATES - LESS BUREAUCRACY - MORE POWER
AND AUTHORITY GRANTED TO THE LOCAL GOVERNMENTS.

SB548 is in effect a mandate. It has been resurrected each year
for the last five (5) years. The results of this mandate would
benefit a special interest group and have a negative affect on
county budgets in terms of additional time and documentation that
would be required.

We urge this committee to put this issue to rest. Please have
faith in the locally elected officials to provide the best
services possible with the available resources without creating
an accounting/bookkeeping nightmare. With positive effort from
both parties, local governments and private enterprise can have a
good, and perhaps better, working relationship without a mandate.

Mike White

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 10

TESTIMONY
BY Michael D. (Mike) Brown
Secretary-Treasurer of Brown & Brown, Inc.
Regarding Senate Bill 548
Before the Senate Transportation Committee
February 13, 1996

Mr. Chairman and members of the committee, I want to thank you for letting me speak before you today.

My name is Mike Brown and I am Secretary-Treasurer of Brown & Brown, Inc. of Salina. We are a 50 year old highway construction company and we work in about seven states. We do repair and maintenance work for federal, state and local governments.

I am here today to support passage of Senate Bill 548. The result of its passage will, I believe, provide a lower cost of public works improvements and maintenance than now exists resulting in lower taxes.

Private industry can provide services cheaper than governments. That is a statement that few can refute. Communism and Socialism do not work. Our federal government is in the process of downsizing. At least 32 states have laws limiting the project size that can be done by county forces. Kansas has on the books laws that limit state government's capacity to do work beyond a specified level. Kansas counties are prevented from constructing buildings and bridges that cost over \$10,000.

Yet Kansas has no limit on the size of road projects that a county may construct with its own forces!

We have heard testimony in House hearings on this subject by counties who fear a law regulating the size of projects. I believe their fears are unfounded. Other proponents of this bill have or will address those issues effectively today. But lets look beneath the rhetoric of the counties and uncover the real issue.

I believe the real issue is the power of county officials to employ their constituents. Representative of the Kansas Contractors Association (KCA) and the Kansas Association of Counties (KAC) spent almost two years meeting and discussing privatization. I was a participant in these meetings. We generally agreed on many points of discussion, but somehow when it was time to put some teeth behind our conclusions, KAC members balked.

I was very puzzled by their unwillingness to agree to specific actions to be taken, even though they agreed in principle, until our last meeting with them. KCA representatives had agreed to fund a proposal to design a system to identify and allocate overhead costs to projects performed by county forces. The proposed system would have been adaptable to popular spreadsheet programs and could have been replicated by other counties. To our surprise, the proposal was rejected. In explaining why the proposal was rejected, two KAC representatives stated that the reason they wanted to do their own work was that they wanted

the ability to employ residents of the county when they could not find work elsewhere. So I guess that the question is, should the county be the employer of last resort for their residents and should taxpayers finance such a welfare program? I think not. In fact, to me, this is completely at odds with the capitalistic system. I would even go so far as to call this socialism. It is practiced by those who, at every other level reject socialism, yet practice it themselves in their own backyard for the stated purpose of retaining the power to employ their constituents.

I believe that if the proposed bill is enacted, the benefits of competitive bidding will rapidly return to county public works. It will lower the burden of already too high property taxes. It will lower the overhead of businesses and farmers and make them more able to compete in the marketplace, thus increasing employment the American way, by growing the private sector. It will increase government revenues because businesses, unlike counties, pay taxes. A huge shortage exists for construction workers and any of those who would lose their jobs would quickly be reemployed by the private sector.

With an open marketplace, unimaginable things can take place. Many areas of Canada have privatized their local public works with predictable savings of taxpayers dollars. The result has been the development of new techniques to maintain roads. I was talking recently with a Canadian contractor who developed a machine to fill cracks in the pavement as it drives down the road. The City of Toronto annually lets for bid ice and snow removal eliminating the need to carry employees on their payroll year-round. The state of New Mexico lets contracts on a statewide basis to perform certain functions. State, county or city governments can elect to use certain repair processes on their roads at a price bid once a year. Prices are considerably lower than if each governmental unit were to bid it separately or do it themselves. Opportunity breeds innovation.

Recent innovations in equipment have made it practical to do work much more efficiently than in the past. While the expense of such equipment is prohibitive to be purchased by a great majority of Kansas counties. One of my company's recycle trains can recycle over 200 lane-miles of roads annually, yet no county can afford to own one themselves. Yesterday, I saw a video of new seal-coating equipment that can seal roads probably 4 times as fast as the most efficient county. Few counties could afford such equipment. A private contractor could only afford to purchase equipment if a large enough market existed and was not preempted from participating in the county market, as is now the case. You might say why not go out and buy the equipment and persuade counties that you can do it cheaper? That sounds good and will work in a few cases. Yet, in the real world, we have been told that, although our price for work is admittedly less than what the county can do similar work, the county will do it themselves because they have to keep the people on their payroll busy.

You will hear that this bill will only create another "unfunded mandate". I believe that this mandate will be self-funding because work will be done better, cheaper and faster than is the case now. The taxpayers will reap the benefits, businesses and farmers will be more competitive and total employment will increase.

I ask you to return capitalism to county government and pass this bill.

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 11-2

TO: The Senate Committee On Transportation

SUBJECT: The Chautauqua, Elk, Montgomery and Wilson County Board
Of Commissioners have serious reservations to amending
KSA 68-520, 68-1104 and 68-1116

Mr. Chairman:

Is this commission aware of the fact that Kansas ranks fourth in the nation in number of road miles (133,256)? Also, that we are ranked 21st in funds returned to our state? Coupled with the Federal distribution inequity and the existing tax lid on all counties, we believe that you are creating an unfunded mandate and usurping our authority to govern our counties with these amendments.

In the last major election the nations people indicated and reinforced the fact that the control of the tax dollars should be kept on the local governmental level. Some of the major reasons and opposition to your amendments are as follows:

1. We do not have a major contractor within fifty (50) miles to bid small contracts. Several contracts in our area, awarded by KDOT, has been awarded to out of state contractors. Where or why wasn't these jobs awarded to Kansas contractors?
2. Small local contractors do not have bonding compacity required for such road and bridge work.
3. It is quite common for contractors to charge a mobilization to expediate a contract in excess of \$10,000.00.
4. This would mean an increase in staffing of the Road & Bridge Departments for inspections, surveying and record keeping.
5. We would seriously impair the safety of our Sheriffs department, 911 ambulance and school bus routes during severe storms and floods if we had to comply with contracting on every instance to clear our county roads.
6. Within four (4) years KDOT will turn over an additional sixty (60) miles of highways within our counties, which will be an additional burden to our Road and Bridge Departments. Several Counties across the state are faced with this dilemma.
7. The Kansas counties have a total of 19,644 bridges. In that total there are 3799 deficient bridges and 2765 functionally obsolete bridges. Our counties are making a constorted effort to replace deficient bridges from Special Bridge funds and are presently being constructed by General Contractors.

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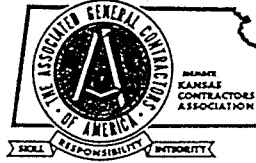
SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 12

8. It would be impossible for our Counties to award small contracts on replacement of culverts due to time and extra cost required in developing contractual documents, letting contracts and hiring inspectors to supervise the installations. This would also put an additional burden for all of the School Districts and their bus routes.
9. We all realize that the General Contractors are looking for ways to maximize their PROFITS. However, this does not justify placing additional burdens of increase costs on our tax paying citizens.

Mr. Chairman, the above four Counties are asking you to withdraw the amendments to the statutes and maintain the present commissioners authority.

HALL BROTHERS CONSTRUCTION COMPANY, INC.
GENERAL CONTRACTORS

R.R. 3 HWY. 36 & OKETO RD.
BOX 166



TELEPHONE 562-2386

MARYSVILLE, KANSAS 66508

FEBRUARY 13, 1996

TESTIMONY BEFORE THE SENATE TRANSPORTATION COMMITTEE

SENATE BILL NO. 548

Mr. Chairman, and members of the Senate Transportation Committee.

Thank you for the opportunity today to appear before you on Senate Bill #548.

My name is Dick Kistner. I am Vice president of Hall Brothers Construction Company, Inc. of Marysville, Kansas. We are a firm that performs various types of construction, Grading, Culverts, Municipal Paving, and specializes in Asphalt Paving.

I am appearing in support of Senate Bill 548. I am very concerned about the increasing use of County Road crews to do work normally done by Contractors in the private sector.

We feel that workers who do a job on a regular basis are better able to perform contracting that work than those who do it only occasionally each year or two.

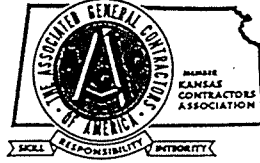
In one instance that I am familiar with in Cloud County, we are not allowed to bid on work that is now done by the county. They have their own asphalt plant which is 2 to 3 times smaller than the one we have permanently stationed at Concordia. The county will therefore produce approximately 1/3 to 1/2 of the material per day that our plant can produce. We feel that our costs to produce and lay a ton of hot mix asphalt are considerably less than that of the county if all costs are taken into account.

When we ask to supply the county with Mixed Material for a

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 13

HALL BROTHERS CONSTRUCTION COMPANY, INC.
GENERAL CONTRACTORS

R.R. 3 HWY. 36 & OKETO RD.
BOX 166



TELEPHONE 562-2386

MARYSVILLE, KANSAS 66508

project they say that our cost is higher than theirs, but they do not show us their costs. We therefore do not know if they are accounting for direct project labor, equipment - rented or owned, fringe benefits, unemployment insurance, workmen's compensation insurance, overhead, etc.

We are not saying that local government should not do normal maintenance operations. But we are concerned that there is more work being done by the local government when it is unnecessary and extremely costly.

Letting contracts to bid has been a proven time tested practice. All State Governments follow this practice, as it is the best known method of economically providing services that the taxpayers desire.

As an example, we as contractors also sublet several items of work on an individual contract. We do this because we feel that the subcontractors either have more expertise in performing that particular work, or can do the work more economically. In other words we let the people who do this work for a living do the work.

Senate Bill #548 addresses that concern. By passing Senate Bill #548 the taxpayers of the community are the winners. They would realize the benefits of Construct by Contract in lower costs and better services.

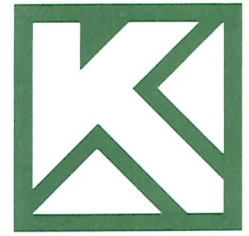
For that reason we are asking you to support Senate Bill #548.

Thank you for your time this afternoon and I would be willing to respond to any of your questions.

Dick Kistner

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 13-2

LEGISLATIVE TESTIMONY



Kansas Chamber of Commerce and Industry

835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732

SB 548

February 13, 1996

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Transportation and Utilities

by
Bob Corkins
Director of Taxation

Honorable Chair and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to express our members' thoughts on SB 548 which would mandate the contracting-out of any county road or bridge work project with a cost in excess of \$10,000.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 46% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

KCCI supported SB 86, a bill introduced in 1994 that would have required a "full cost accounting" of proposed county construction projects of this sort. The same concept is contained in today's SB 548 where it specifies that project cost must be calculated by reviewing

SENATE TRANSPORTATION
DATE: 2/13/96
ATTACHMENT: 14

the costs of labor, equipment, materials and overhead attributable to the job (see Section 2(b)). That is the part of SB 548 to which KCCI lends its full support.

Full cost allocation is the means by which an "apples to apples" comparison is made between private sector and public sector performance of work. In determining the cost of performing a specific service, governments frequently ignore costs such as machinery depreciation, employee benefits, travel, communications, etc. This effectively allows government to underbid private contractors through an unfair accounting advantage. Private vendors have no choice but to incorporate these expenses into bids which they submit...otherwise, their businesses will eventually fail.

KCCI takes a position on this accounting principle because it is the cornerstone for making any prudent privatization decision. To require contracting-out in every circumstance where project cost exceeds a particular dollar threshold (as would SB 548) *may or may not* result in the choice which is most cost effective for taxpayers. Perhaps county performance really is the cheapest alternative for a given project; perhaps a joint performance that uses county equipment and private labor (or vice versa) would be most efficient; or, there may be a situation in which both public and private labor should be utilized together. Our point is that the choice should be driven by reliable cost comparisons.

The intent of SB 548 is certainly laudable. There may be some dollar threshold for which it can be statistically shown that private contractors will regularly be the most cost effective choice. KCCI would support a mandate upon counties that required their selection of the most cost effective option that a specific cost accounting identified. Although that's not the exact proposal before us today, we believe it would be consistent with the objective of SB 548.

Again, I appreciate this chance to speak and will certainly respond to any questions you may have.