

Who Should Fix the Potholes?

Sometimes it saves money to outsource government work. But don't assume that.

By [Katherine Barrett & Richard Greene](#) | June 2009



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For some time now, many states, cities and counties have looked to save money by hiring contractors to perform governmental tasks. Debates raged over whether it was fair to government workers to give their jobs to others. People argued about the potential problems of having private companies run essential operations such as prisons. But few questions have been asked about whether real savings were inevitable. It turns out that they're not.

The Texas Department of Transportation, for example, relies heavily on contracted services. Road repairs, maintenance, engineering and design work are often handed over to the private sector. The department has been driven in that direction by restrictions on the number of department employees it was allowed to have, as well as longstanding legislative pressure to outsource. But a 2008 internal audit pours some rain on that road. It found that potholes filled by DOT workers cost \$23 each to repair, but the ones repaired by contractors cost \$129 each. Sealing cracks cost \$327 per square mile for state workers and more than twice that amount for contractors. Design and engineering work also turned out to be more expensive when it was undertaken outside the department.

Similarly, a recent audit in Kentucky said the state could have saved \$9 million had its own employees, rather than contract workers, been used to staff facilities for the mentally ill. And in Florida, when a vendor's contract to provide food services for prison inmates came up for review, it turned out that this, too, could have been done more cheaply by state employees. The state ended the contract and hired back 100 people.

Florida, in fact, had a love affair with privatizing jobs under former Governor Jeb Bush. More recently, a commendable amount of caution has tempered that passion. In 2006, the state legislature created the Council on Efficient Government. This was in response, says Henry Garrigo, the council's executive director, to "several large-scale projects that were rolled out in the state that weren't going as well as planned."

The council's role is to help agencies figure out the business case for either contracting out or moving in the other direction by bringing contracted services back in-house. The council uses cost-benefit analysis and risk-assessment tools to look at questions of contract and project management as well as performance measurement and continuity of operation plans.

The idea, says Garrigo, is to get policy makers to "think about things before they do them, rather than do them intuitively." Officials are encouraged to look at the financial and the public policy implications of their outsourcing decisions and whether a different alternative could be pursued. "In the past, the biggest assumption was that it's cheaper in the private sector," Garrigo says. "We're checking first to see that it is."

Another reason the legislature created the council, notes Cathy Schroeder, communications director for the Department of Management Services, was that there was a lot of politics in play. The council processes, she says, take "the emotion and the politics out of decision making."

Wisconsin also has required cost analysis for contract decisions for several years. "There are times when the private sector can do something cheaper," says state Senator Robert Cowles, "and times when the public sector can. If you don't have the analysis, it's hard to decide that." Although the analysis may help—and the state has cut contracting costs dramatically—it's no guarantee that the cheaper option always will be taken. A recent audit of the Department of Transportation noted that the more expensive consultant option was often used, a result of legislative limits on the number of state employees.