PRIVATIZATION AND STATE TRANSPORTATION SERVICES: A QUALITATIVE STUDY

by

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ABSTRACT

The major purpose of this paper was to interview and report the attitudes of individuals who are currently involved with highway transportation in the State of Montana regarding privatization of certain Montana Department of Transportation duties or services.

The in-depth interviews explored the topic of privatization and individual opinions on the reliance on private enterprise, market forces and competition for providing public services. Personal interviews were conducted with thirteen carefully selected individuals. At the time of the interviews, each individual was involved in one of four areas of highway transportation; one, private sector engineering or consultant design, including consulting, road design, bridge design or traffic design. Two, current or past employees of the Montana Department of Transportation in the areas administration, maintenance or engineering. Three, general contractor representation; and four, relevant transportation experience through a higher education institute.

Preparation for the interviews was based upon a substantial review of literature, including privatization plans from the Commonwealth's of Virginia and Massachusetts, as well as the states of Idaho, Washington, Oregon and Iowa. Privatization plans written by the Montana Contractors' Association, the Providence of Alberta, Canada, the City of Great Falls, Montana, and private organizations such as the Reason Foundation were also reviewed. In addition, related materials from the Providence of British Columbia, Canada, the U.S. Department of Transportation, the U.S. Department of Labor, the State of Kansas and numerous reports from private consulting firms were reviewed.

The main conclusions of these interviews are: (1) There is no one specific definition of the term privatization. (2) There is no clear indication financial savings would occur if the overall mix changed. (3) There would be no savings from any change in the public and private sector mix with regard to buildings, equipment or land. Moving personnel or labor more toward private sector may be a short-term cost saving, but long-term savings are unclear. (4) MDT should be responsible for determining the increase, decrease or maintaining the level of privatization. (5) There is significant room for improvement in oversight of some of the privatization areas. (6) There is a great deal of confusion over how MDT evaluates the success or failure of privatization or private sector performed services or projects. (7) There is a high level of satisfaction with the current mix of private and public sector work with regard to privatization.

The recommendations based upon this study are: (1) Maintain the current mix of contracting out or outsourcing for the areas of construction and maintenance. MDT should investigate increasing the amount of outsourcing and re-direct MDT design as project review and oversight for possible improved performance in the area of consultant design. (2) Additional educational and training opportunities should be investigated. (3) MDT should determine levels of privatization without being encumbered by political forces, either internal or external. (4) MDT needs clearer and more communication, both internally and externally, describing the processes of oversight of projects.
I. Introduction

General Information

Throughout history, and in virtually all lands, most highways have been built, owned, and maintained by governments. There have been some important exceptions to this rule, but for the most part, highways have been a part of the government sector. There are several reasons for this, including military and political concerns, especially in previous times, but one of the most fundamental reasons why government ownership of highways is so widespread is it may be more economically efficient for the government to provide highways than to leave this task to the private sector. (Geltner, 1987.)

In recent history, privatization has become increasingly common as a means to leverage limited public resources for transportation investments. It is not new in the history of transportation infrastructure, although its application has changed in recent decades. The thrust behind privatization of services has usually been economic and political in nature, pointing to the inefficiencies of government, over-taxation for services and pressure on government representatives from the private sector to open new business avenues for certain segments of industry. The State of Montana has not been immune from these discussions regarding privatization of government services, as evidenced from the operations of a private prison to contracting out janitorial services in the state capitol building.

As recently as 1996, the Montana legislature contracted with a private consulting group to study the feasibility of contracting out selected functions of the Montana Department of Transportation (MDT). This consultant firm looked at three areas within
the operations of MDT; preliminary surveys, highway and bridge design and construction contract administration. They found these selected functions should not be privatized, siting more expense, equal or lesser quality or a higher risk to the state if such services were moved to the private sector. (Infrastructure Management Group, Inc., 1996.)

In 1998, a different report was issued to the Transportation Funding Study Committee of the Montana legislature from the Montana Contractors' Association (MCA) advocating for privatization of certain functions within MDT. This report cited privatization efforts in Canada. Both Alberta and British Columbia privatized a wide range of services previously performed by their Departments of Transportation. As a result of the privatization, the MCA noted the costs to Alberta and British Columbia declined and the quality of the services had improved. (Foster, 1998.)

It is apparent that highway privatization is an appealing concept during these times because of the combination of growing need for infrastructure maintenance and strong political pressures for improved services, fiscal austerity and reduced taxes. (Geltner, 1987.)

Problem Statement

The purpose of these in-depth interviews was to gather and report the attitudes of individuals involved with highway transportation issues in Montana regarding privatization of certain Montana Department of Transportation duties or services. Personal interviews explored privatization and the results of the interviews have provided an indication as to whether or not privatization may be a desirable alternative by which to save tax dollars without compromising the availability and quality of state services.
Questions to be Answered

The following questions were answered concerning privatization of duties or services within the Montana Department of Transportation:

1. What is the understanding of privatization when it is discussed within the context of highway design, construction, maintenance or administration?

2. Based on the response of question one, would a lesser, greater or same level of privatization result in financial savings to the State of Montana?

3. Referring to the answer on question one, is there a need to move from the current mix of privatization to a lesser or fuller privatization model to ensure effective utilization of physical/human resources for the State of Montana?

4. Again referring to the answer on question one, who should be involved in the determination of the decrease, increase or maintaining the level of privatization?

5. According to the stated understanding of privatization, how does the State of Montana oversee the services that are provided by privatization?

6. According to the stated understanding of privatization, how does the State of Montana evaluate the success or failure of privatization?

7. Is the current mix of state and privatized services in the transportation arena successful for the State of Montana?

Need for the Study

It is generally believed that government agencies have difficulty in objectively demonstrating the quality of their work and the cost effectiveness of their performance. These agencies may do an outstanding job, but their difficulty is in their ability to prove that their performance is cost effective in a manner that is acceptable by the parties involved.
The question of privatization comes to two main areas. One, evaluation of the quality of services or products provided. Two, is privatization more feasible or cost effective, and how is the cost analysis between private and public entities determined?

**Limitations of the Study**

A qualitative approach to this study was chosen to obtain the deepest understanding possible of the issue of privatization. This qualitative study was limited to an in-depth interview format. The literature review portion of the study began in August 1999 and continued through May 2000. Interviews began in February 2000 and ended in May 2000.

**Possible Contaminants**

With this type of in-depth interview format, there may be a number of factors that may contaminate the survey. However, there are five distinctive factors that became clear during the interviews and could be considered contaminates to this study.

First, within two months of the beginning of the study, there was considerable press coverage regarding the current condition of public restroom facilities along Montana state highways and how the Montana Department of Transportation should address this issue. Second, the privatization issue is political in nature, and the majority of individuals were hesitant to bring any commentary that may have lent a political stance, even if it meant being vague or avoiding answering questions. Third, because the interviews were conducted in a place of business, there was always the possibility of
interruptions. Depending upon the nature and importance causing the pause in the interview, a new predisposition might change the remaining interview. Four, the interviewer’s personal association with an employee of the Montana Department of Transportation might have had some impact on responses. Five, with this type of in-depth interview format time and financial resources somewhat limited the number of qualified individuals to interview. In addition, the limitation of time prevented a more in-depth investigation of certain functions within the Montana Department of Transportation and may affect the researcher’s understanding of specific internal operations of MDT.

Definition of Terms

The concept of privatization has been discussed in a different manner each time a study, presentation, paper or piece of legislation has been produced. Since it is such a broad concept, which can be applied to almost any area of government operations, the terminology used in one area of government often does not translate accurately into another sector when the concept of privatization is discussed. If it is a process of transferring productive operations and assets from the public sector to the private sector, then privatization is more than selling an enterprise to the highest bidder, as it includes contracting out, leasing, private sector financing of infrastructures projects, liquidation, and a variety of activities.

The following definitions of terms can be applied for the purposes of this project:

- *MDT*-- The general acronym for the Montana Department of Transportation.
- *MCA*-- The general acronym for the Montana Contractors’ Association.
Privatization—In general terms is the performance of a selected function or service by private contractors. (Infrastructure Management Group, Inc., 1996.)

Contracting out—The government contracts with a private sector organization to provide a specific service. Government still administers the contract, enforces regulations and specifications surrounding the contract and provides evaluation after the completion of the service. (Government Online, 1998.)

TEA21—Acronym for the Transportation Equity Act for the 21st Century.

Private Sector or Private Entity—Any person, corporation, limited liability company, partnership, joint venture or other private business entity. (Commonwealth of Virginia, 1995.)

Public Sector or Public Entity—Means the Montana Department of Transportation, or when used in a broader context, any agency or authority thereof, any county, city or town and any other political subdivision of any of the forgoing, but shall not include any public service company. (Commonwealth of Virginia, 1995.)

Summary

There should always be a number of goals present before the question of privatization is seriously considered on a large scale. However, three of the most important goals of privatization should be 1) broad macroeconomic goals on a statewide basis and 2) quality assurance goals.

The macroeconomic goals of privatization should have a statewide impact as a means to reduce the government’s role in certain areas. It is generally believed agencies have difficulty in objectively demonstrating the quality of their work and the cost effectiveness of their performance. Thus, it is also generally believed that private sector businesses have the ability to control costs and quality of services better because of the inherent concept of competition.
However, in sparsely populated areas, such as Montana, there is a feeling that the most benefit from privatization will occur in more urban areas rather than the rural setting. An example of this in a region similar to Montana is that in early 1997, the Filmon government in Northern Manitoba began closing over twenty rural highway maintenance yards and reducing work at another dozen support yards. It was estimated that more than 150 full-time and seasonal Highways employees would lose their jobs. The cuts had dramatic effects upon many of the smaller communities where these jobs were important to the local economy. Snowplowing, gravel work and weed control among other duties was offloaded to municipalities. This was a similar result to when the Social Credit government of British Columbia similarly privatized Highway maintenance and taxpayers ended up paying an extra $100 million according to an independent report by Ernst & Young. (Province of Manitoba, Canada, 1997.) As a result, the general belief is that if the state or province will not benefit as a whole from privatization and will not be embraced as a cost saving measure.

On a more macroeconomic scale, it is nearly impossible to find consistent benchmarks on how private businesses evaluate their costs, let alone to compare these costs to how government assesses it’s cost. It is thought that privatization will assist in promoting the development of the private sector by “leveling the playing field” and ending subsidized competition from state-owned enterprises. However, there is a danger that emerging private businesses face unfair competition from established enterprises that have access to credit and other inputs at below market rates and better access to government distribution channels or political connections. (Munshi, 1998.)
The second goal of privatization, quality assurance goals, is just as difficult to qualify. If specific quality of service goals can not be defined, as well as measured and quantified, there is no point in privatizing services.

In February 1995, the province of Alberta, Canada produced a strategy to determine if it was going to continue down the path of activity based and equipment based maintenance contracting or move towards a total privatization model. After bringing in special consultants and collaborating with key internal personnel, three objectives were identified as essential issues regarding privatization of maintenance. First, such a move should improve the cost effectiveness of delivery of maintenance throughout the province. Second, there should be the ability of maintaining and managing the current level of service and third; there should be elimination of any potentially adverse impact on the road during the changeover period and subsequent contract period. (Gerke, 1998.)
II. Review of Related Literature

Introduction

Preparation for the interviews was based upon a substantial review of literature, including privatization plans from the Commonwealth’s of Virginia and Massachusetts, as well as the states of Idaho, Washington, Oregon and Iowa. Privatization plans written by the Montana Contractors’ Association, the Providence of Alberta, Canada, the City of Great Falls, Montana, and private organizations such as the Reason Foundation were also reviewed. In addition, related materials from the Providence of British Columbia, Canada, the U.S. Department of Transportation, the U.S. Department of Labor, the State of Kansas and numerous reports from private consulting firms were reviewed.

The results of privatization were varied. The 1996 Commonwealth of Massachusetts State Auditors determination of the proposal to privatize maintenance of state roads in Worcester county found the cost of performance for a two-year period contract to be $1.6 million less when privatized. It should be noted that the quality of services to be provided were at least equal to or greater than provided by Massachusetts Highway Department employees, for two privatization contracts, along with a number of other criteria. (The Commonwealth of Massachusetts, 1996.) On the other side of the country in 1996, the Idaho Transportation Department Privatization Report did not recommend privatization of maintenance work such as pavement markings, traffic signals or blade patching of pavement, all based upon cost comparisons. (Laragan, 1996.)
History

The economic success of our nation and the safety of its citizens have always had some degree of dependency on services and infrastructure provided by federal, state and local governments. Society relies upon those employed within the public sector to teach children, to protect citizens from crime and fire, to maintain roads, bridges and sanitation systems, to provide necessary social services and to safeguard the environment. (U.S. Department of Labor, 1996.)

Due to the capitalistic nature of our society, the privatization of public services has been the topic of interest to legislators and to executive staff at every level of government, nationally and internationally. This interest has been spurred by numerous cases in which government functions have been contracted out to private providers, frequently achieving not only lower costs but also comparable or improved service quality. Given the resources dedicated to selected transportation issues and the availability of qualified private sector service providers and contractors, it is a natural tendency to investigate the privatization of certain transportation functions or services. (Infrastructure Management Group, Inc., 1996.)

Present

The central question in privatization is would a state, in this case Montana, be placed in a better economic position and have a higher quality of service or product, if selected functions were privatized?
A review of literature shows the question of economic advantage to the transportation services private sector itself is difficult to answer simply because there is no clearly defined process for cost analysis on either side of the public or private sector. Compounding the issue is the broader macroeconomic issue pertaining to all taxpayers of the state, not just to providers in the transportation area. With regard to similar geographic and population size, other sources of literature are split in their opinion that privatization is beneficial. Is the benefit of privatization greater for citizens of Billings than for the citizens of Opheim?

In the past decade, and particularly as our U.S. population ages, there has been a greater emphasis on the service industry. Services provided, in all economic sectors is at a great premium. Transportation is no exception. However, is there a breakeven point for most consumers on what quality or service level is the general public willing to accept at a given cost? The trend seems to be going toward a higher level of service provided, given that the associated cost of such a service is not exorbitant.

Going beyond the question of economic or service value, there are other issues for a state with the geographic size and population of Montana. Safety and the well being of citizens have always been an issue in the forefront of services provided by government. In the early stages of transportation development, the safety issue was primarily focused on the defense of the nation. Has the issue of public safety changed from this early premise of national safety to one of safety for an individual? Literature seems to indicate personal safety, often stated in conjunction with personal freedom, has changed the public’s view of transportation. Individuals often feel it is their right, rather than privilege, to have the ability to move through the transportation system unencumbered.
Being unencumbered extends to almost any circumstance, in any season and for any reason.

**Summary**

This review of literature indicated there is an increasing trend toward privatization in general. However, there was little consensus on a common definition of privatization, the extent of private sector involvement and determination of the areas to be privatized.

In addition, while there are generalized terms of cost savings to taxpayers, there is little hard data to reinforce this position from the private sector. It is equally as difficult for the public sector to refute this claim. Popular belief is that the private sector can provide a product or service at a lower cost.

The focus of privatization is most often a product of the political arena. As a result of this continual debate studies have been produced both by the public sector and the private sector, but are often discounted by either or both sectors. Most recently for the State of Montana, an independent firm conducted a privatization feasibility study in 1996. However, this study has been considered inconclusive or inaccurate by a number of private sector entities. Political pressure brought to bear through local, state or national politicians has been, and will continue to fuel discussions regarding privatization.
III. Procedures

Sources of Data

For this qualitative study, the source of data came from thirteen personal interviews. Individuals for the interview were selected based on a number of criteria. Selection criteria included experience in the public or private sector field of transportation or related areas; expertise in their specific professional area; peer recommendation; reputation; longevity in their profession; accessibility and willingness to be interviewed.

Construction of the Survey Instrument

The construction of the survey instrument (see Appendix A) came after careful review of the literature. After this review, the researcher identified those issues that were important to this study and developed a survey. Sample surveys were gathered from sources such as the Kansas Department of Transportation and augmented with literature from consulting firms such as VEMAX Management, Inc of Edmonton, Alberta.

The initial survey prepared was over twelve pages in length and contained highly technical questions that would have required several days to fully answer. The survey asked detailed questions regarding how the interviewee would perform a cost analysis of their department or firm. It also required defining specific terminology and then having that terminology applied to different scenarios.

The second revision of the survey was seven pages in length and generalized in the sense that it did not require specific cost analysis figures, actual number generation or
financial calculations. In addition, the number of questions asking for definitions of
terminology was greatly reduced.

The second survey revision was informally presented to three individuals for
review. Dr. Jodi Carson, Professor of Transportation from the College of Engineering at
Montana State University-Bozeman, was representative of the population to be
interviewed. The other two individuals were Dr. Paul Polzin, Executive Director of the
Bureau of Business and Economic Research at the University of Montana-Missoula, and
Dr. Norman Millikin, Professor of Marketing from the College of Business at Montana
State University-Bozeman. Dr. Polzin and Dr. Millikin are widely known as being
experts in the fields of marketing, business economics and in the art of creating and
conducting surveys for the purpose of various kinds of research. After receiving
recommendations from these three individuals, the survey was revised again.

The final survey, which was presented to all interviewees, was one page in length,
consisting of seven general questions. Each question was designed to address an overall
area of investigation, while allowing for a general dialog.

**Administration of the Survey**

The interviews, which were the primary source for collection of data, began in
February and ended mid May of 2000. Because of the personal nature of the focused
individual interview, it was important for each interviewee to be as comfortable with the
process as possible. In order to maintain some type of consistent interview situation, the
following procedure was initiated with each person.
1. A phone call or e-mail was placed to each person, requesting a personal interview at their place of employment. The communication introduced the interviewer, but only briefly explained the project. Each person was assured the interview would take only twenty minutes, but they could spend more time answering the questions if they wished to do so.

2. Each interview was conducted in their personal office or in a meeting room at their place of employment.

3. Each interviewee was given a copy of the survey questions. Then approximately five to seven minutes were spent reintroducing the interviewer, explaining the degree program, how the project was chosen and why the interviewee was considered to be an appropriate individual to interview.

4. Permission to tape the session was asked of each participant.

5. The interviewer read the introduction paragraph of the questionnaire. Each question thereafter was read out loud by the interviewer.

6. Each person interviewed was allowed as much time as they wanted to respond to each question. The interviewer would provide clarification of the question if asked, but provided little prompting or encouragement, either verbally or through physical movement.

7. Where appropriate, in the interviewer’s judgment, additional questions were asked in order to clarify or encourage a more in-depth coverage from an interviewee on a particular question.

8. Interviewee’s were allowed the freedom to move from question to question, or cover issues not directly addressed by a question.
9. At the end of the formal interview process, the tape recorder was turned off. The interviewer asked if the interviewee had any questions about the project or the time spent in the interview. The interviewer left a copy of the questionnaire, and stated that if the respondent had any further questions or concerns, a name, address and phone number was provided on the bottom of the questionnaire.

10. The interviewee was asked if they would like a final copy of the report.

11. The interviewer thanked them for their time.

12. A personal hand written thank you note was sent to each interviewee within 48 hours of the interview.

13. Each of the interviews was transcribed for clarification of the interview and for reference in preparing the paper.

The methodology for these in-depth interviews was designed to elicit candid, unrehearsed responses to a series of seven questions regarding privatization. The researcher believed this would maintain a consistent approach to each interview and should help in increasing the possibility of providing a non-biased conclusion to the project.

**Analysis of Data**

Analysis of the data began at the end of March and ended mid May of 2000. The qualitative research approach avoids complications associated with more traditional, quantitative approaches. The reason for using qualitative research techniques for this
study is that it lends itself more to the collection and analysis of extensive narrative data in order to gain insights into a situation. Such insight may not be possible using a more traditional quantitative research approach, which lends itself better to the collection of large populations and standardized, numerical analysis. (Gay, 1996.)

**Summary**

Although privatization of certain transportation services had taken place for most of this century, issues surrounding cost savings and quality of services is still relatively undefined. This research sought to uncover some of the opinions of individuals involved with highway transportation issues in Montana regarding privatization of certain transportation duties or services. The results of these interviews may help in determining how the State of Montana may better be able to address privatization issues.
IV. Presentation of Data

General Information

The interviews were conducted from February to mid May of 2000. The respondents provided commentary and opinions about privatization of transportation within the State of Montana, as well as comments regarding privatization efforts elsewhere in the U.S. and Canada. Through the interviews, interviewees discussed their level of knowledge of privatization, the extent of privatization within the Montana Department of Transportation, possible areas of change, perceived improvement or decline of privatization efforts and the success or failure of the mixture between private and public sector transportation services or duties.

Occasional quotes made during the in-depth interviews are used throughout the presentation of the results, conclusions and recommendations. However, the sources of these quotes are not given, as the researcher assured the confidentiality of the interviewee’s statements.

Results

The following is a presentation of the findings during thirteen in-depth interviews:

Question One:

What is your understanding of privatization when it is discussed within the context of highway design, construction, maintenance or administration?
There is a general consensus the term privatization means the moving of some function of MDT's administration, design, maintenance or other physical services provided, either in whole or part by state employees to the private sector. The interviews showed the term “privatization” being used in some context to describe everything from the concept of a total capitalistic organization where all funds are distributed to the private sector to a totally socialistic approach where all services and jobs are completed by the public sector. In terms that most closely fit to this study, “outsourcing”, “contracting out” or “contracting” was almost used interchangeably with the term “privatization” or “privatized.”

Partnership was another term frequently used. However, this term was usually used in conjunction with MDT having the ability to go to certain firms or contractors with special expertise required to complete a large or complex project. In this manner, it would not be necessary for MDT to increase staff or current staff workload, but staff would still work in association with the firm or contractor to complete the project. In some instances, the term referred to situations where MDT employees would work with and actually supervise private sector entities while they both performed the job or service simultaneously. Respondents seemed to be more precise in their definition or use of the term “partnership.”

In addition, there was no consensus on a specific definition of the term privatization either within Montana regarding legislative issues, or nationally when discussing anything from maintenance issues to toll bridge operations. The overwhelming majority of respondents felt that the term privatization is not well defined for use within Montana for transportation issues.
Question Two:

Based on your response of question 1, do you believe lesser, greater or the same level of privatization would result in financial savings to the State of Montana?

Approximately forty percent (40%) of the respondents felt it would be more efficient and probably have a level of cost savings to the government if there was a greater degree of privatization or contracting out. Twenty-five percent (25%) of those interviewed felt that the ratio between private sector and public sector was satisfactory regarding costs to the State of Montana. The remaining thirty-five percent (35%) felt that moving the ratio mix would not matter, because it would simply represent a cost shifting rather than cost savings.

![Figure 1: Changing the Current Level of Privatization](image)

Two topics related to the second question were frequently brought up. First, with the geographic size of Montana combined with the overall sparse population, ninety percent (90%) of the respondents agreed in some form there are some efficiencies of centralizing transportation services. This was particularly true for maintenance services, with winter maintenance being the greatest concern. Along this same line of thought, a
number of respondents from all professional areas had concern regarding bidding of contracts in sparsely populated or remote regions of the state. The concern was even if it was beneficial to have private sector contracts, if there is not a bid or a bid perceived as inflated for a sparsely populated or remote area, then there would not be a benefit to either private sector or public sector based solely on cost. In this instance, it was thought that competition in the more populated areas would help, but may not override the entire issue of privatization with regard to this question.

Almost all respondents mentioned a second issue that is also closely related. Respondents stated in some fashion that question two was a difficult question to answer without doing some type of analysis, particularly cost analysis. This was true for issues generally related to administration and engineering design, but particularly true when applied to the issue of maintenance.

Question Three:

Referring to your answer on question 1, do you feel there is a need to move from the current mix of privatization to a lesser or fuller privatization model to ensure effective utilization of physical/human resources for the State of Montana? (I.e. staff, buildings, equipment, land, etc.)

More than sixty percent (60%) of the respondents felt that a fuller privatization model would allow a more effective utilization of resources for Montana, but half of these respondents felt privatization would benefit human resources, while the others felt it would benefit use of the physical resources. Either way, as one respondent stated, a fuller privatization model would ensure a good check and balance system to keep
everybody efficient. It forces all parties to become more proactive and progressive in their thought and management.

Of the respondents who felt a fuller privatization model would benefit human resources, it was usually stated that if the public sector drew internally for services and functions, the private sector would eventually “dry up” and there would be an export from the state of expertise and personnel. Others stated that a fuller privatization model would allow for personnel expansion into the entire state, rather than just at population center points or at a county level. Another interviewee noted that in simple terms, with a fuller privatization model, an employee will just move from the public to private sector.

On the other side of the subject, approximately twenty percent (20%) felt the lesser privatization model would be more effective utilization of physical and human resources. One respondent felt that less privatization would ensure effective utilization of human resources from the viewpoint of the difficulty of finding qualified employees and keeping them. However, from the physical resources standpoint, private sector utilization may be better because private firms may have the ability, perceived or otherwise, to better keep pace with the fast pace of changing technology. Also from the physical resources standpoint, another individual stated an interest in possibly exploring having the private sector build facilities and have the public sector lease these facilities.

One interviewee stated overall satisfaction with the current mix of privatization for physical and human resources, saying there may be room for some minor adjustments, but from a macro view felt the current mix worked. Another individual stated that the mix is not going to change much one way or another.
"If MDT doesn't do it, private will. It all costs money. What I'm getting to is there isn't any free lunch. It costs the citizens of Montana something, whatever that something is to run a highway department, whether they're public employees or private employees, it's still going to be there. I would argue there's more cost shifting than cost savings." (Quote from one interviewee)

Question Four:

Again referring to your answer on question 1, who should be involved in the determination of the decrease, increase or maintaining the level of privatization?

Thirty-six percent (36%) of the respondents felt that the main responsibility for determining the level of privatization within the Montana Department of Transportation lay with the governor and/or the legislature. Individual comments ranged from thinking it should come from the governor to it should come from the legislature only after there have been through objective studies of the situation as it exists in this state and finally, it should not be something the governor can do unilaterally.

Eighteen percent (18%) felt that the responsibility lies within the Montana Department of Transportation, with little outside assistance from the governor’s office, legislature or other parties. All respondents in this category were from the private sector.

One respondent felt that the governor’s office and MDT need to lead in determining the level of privatization. However, this individual felt that a joint discussion between the public and private on the levels of privatization would be skewed because of the issues surrounding “profit” and cost analysis. Again, the matter of the politics involving increasing or decreasing privatization levels was apparent.
One respondent felt that MDT should lead in the determination of the level of privatization, but with ample input from politicians, legislators, the Montana Contractors' Association and other organizations that have a stake in the discussion of privatization. Another respondent took a slightly different tact, saying that the citizens of Montana should be, and they are, involved through their elected representatives. He believed this was a fair opportunity and procedure for determination. Another respondent felt that all interested parties should be involved, and on a fairly equal basis. His suggestion was that a commission could make determinations on levels of privatization, with various individuals appointed by different parties who are interested in the process. This way, everyone from the average citizen to the governor could have a say in the privatization process.

Finally, one interviewee was fairly non-committal, but pointedly stated, “I think there’s some conflicting legislative priorities.”
Over ninety percent (90%) of those interviewed felt that politics played a major role in the determination of the level of privatization. That same percentage also felt politics should not be a factor in this determination. Clearly it is a political issue.

Question Five:

According to your understanding of privatization, how does the State of Montana oversee the services that are provided by privatization?

All of the respondents thought that oversight of privatization services came from MDT in some form. However, there was a wide opinion on where the MDT oversight comes from, with different departments or areas of responsibility mentioned depending on what privatized service is performed.

Seventy-three percent (73%) of the respondents mentioned specific departments or positions of authority for oversight, ranging from a project engineer or manager to some form of contract administrator.

Eighteen percent (18%) combined the oversight and evaluation of privatization through job performance, with no particular process described.

One respondent felt very strongly that MDT’s oversight of services was poor, particularly in the engineering service area. This respondent mentioned difficulty that private sector providers are currently having with timely review and feedback of projects from MDT. This concern was covered by two other respondents as well, but not as in-depth.
Question Six:

According to your understanding of privatization, how does the State of Montana evaluate the success or failure of privatization?

Three interviewees stated that the evaluation of success or failure of privatization was usually based on budget or cost evaluations. One respondent summed up this feeling by saying that it is obvious when an entity performs the work, it will have to meet the required specifications, including timelines.

Two respondents took a more macro view, feeling the evaluation process included project completion on schedule; cost or budget analysis; flexibility with regard to change orders or other situational changes; and the private sector's ability to interact with various MDT departments or bureaus. Two additional interviewees also felt that there were some break-even areas between cost effectiveness or analysis and the quality of the service provided. However, their discussions were focused mainly on these two areas, and did not include situational changes or interaction.

One interviewee said the evaluation of success or failure should be determined by the completed project. There was no specific mention of costs involved, timelines or other variants.

One respondent said evaluation of success or failure of privatization should be based primarily on cost evaluation. This individual felt that the current process of evaluation was poorly defined and performed.

Three individuals were either unsure or did not directly address the question of how the State of Montana evaluated the success or failure of privatization.
Question Seven:

In your opinion, from a service provided level, is the current mix of state and privatized service in the transportation arena successful for the State of Montana?

Figure 3: Successful Mix of Public & Private Sector Services or Duties?

Seventy-five percent (75%) of the respondents stated that from a service provided level, the current mix of public and private sector service in the transportation arena is successful for Montana. One individual commented he did not know where the optimum level ought to be, but that level comes with efficiencies through MDT operations as well as efficiencies through private sector operations and, "...that the mix is probably a moving target."

Seventeen percent (17%) of the individuals interviewed felt the current mix of public and private sector services are not successful. One individual stated there could be much more use of the private sector and a downsizing of MDT in all areas. Another respondent thought that all entities on the private side would like to see more
privatization but that the majority of people view it on a county level rather than on the state level.

One individual did not directly address the question.

Additional Insights from Interviews

Cost Analysis: Savings or Shifting?

This study shows that there is little agreement between the private and public sector on performing cost analysis; how it should be performed, who should conduct it or if it would provide helpful data.

This study also shows there was the consensus that an increase in some areas of privatization may be a desirable alternative, but over two-thirds of the individuals interviewed felt there would be no real cost savings to taxpayers or government if privatization efforts were to be increased. Most individuals stated it would be more of a cost shifting to private sector, rather than cost saving. This view is also supported through the literature review.

In October 1987, the province of British Columbia announced that maintenance of all roads and bridges would be privatized or contracted to private companies. The decision to privatize was based on the premise that a contractor competing for work would be better able to control costs and bring innovations to equipment, staffing and methods. An offer was made to all maintenance workers employed by the government that if they formed employee groups, they would be first in line to negotiate contracts in
each of the 28 contract areas. Employees also were told that if they chose not to accept work from the contractors, the government would find them other work within public service. However, on the basis of ministry costs calculated by a large national accounting firm and adjustment of 1987-88 costs for inventory and actual inflation rates, it appeared in early 1992 that only minor savings had been realized (less than one percent). In addition, former ministry employees who became contractor employees generally stated they were satisfied with their pay, but some still preferred to be ministry employees. The concerns usually expressed by these employees were stress and uncertainty that surrounded each bidding period and the transfer of employment to the succeeding contractor with no guarantee of continued employment. Finally, the ministry recognized that there was a more consistent maintenance level due to the monitored application of detailed maintenance standards, but the costs were less prior to privatization. (Lund, 1994.)

In addition, there is little hard data available in the countries studied where privatization of transportation services occurred to support the general perception that privatization, and in particular contracted maintenance, is more cost-effective than using direct government forces. Even when cost information is available, it is difficult to make valid comparisons because of different execution methods, quality standards and accounting practices. (VMAX Management, Inc., 1997.)
Education and Communication

There was considerable commentary on the process of consultant design. Concerns were expressed over the amount of time it currently takes for designs to be reviewed and for feedback regarding project designs. This stems from various areas.

Respondents say there has been a perceived correlation for the public sector design staff to increase their performance and output with the increase of funding. This encompasses all aspects of design, from doing in-house designs to reviewing private sector designs, correcting flawed plans and to teaching private sector consultants how to design certain elements within a project. Respondents generally agreed that while these functions are part of the regular duties for MDT staff, the increase in funding for projects and anticipated project output may create unrealistic expectations. With regard to the increase in highway funding, one respondent stated that part of the changing role of MDT should be to hire consultants and act as supervisors.

"I've witnessed an awful lot of projects that come out by a lot of different consultants and some consultant designs are good and some are bad. The ones the highway department has to deal with that are bad means they have to put more resources into that particular consultant. So if we're going to get even quality of all projects out there that means the highway department has to address the good consultant designs vs. the poor consultant designs. They're an over-viewer in that case. I know that what their doing now that's wrong is that they have a good consultant design they pass it through and build the job. If they have a poor consultant design job they actually just redesign it. And that's a waste in my mind. And if they don't redesign it before they put it out to bid, they will let it go poorly designed and then they'll redesign it in the field which is much worse than anything because all of a sudden your out there with indecision and no reaction time and you've got change orders happening and stuff. In my estimation the one thing their doing wrong that I see is that they'll let a poor consultant design job get through and get out to bid and their not putting the pressure on the poor consultant design." (Quote from one interviewee)
This individual went on to state that one way to solve this problem is to make all the consultants come up to a quality that is a minimum standard for acceptable work through an educational process.

“*They can do that, first of all, with good education. If they’re going to have consultants doing design, they probably should have some review meetings of projects where they can talk things over and get common attitudes out there and common expectations. I don’t know that they do or do not do that. The evidence I see in the field...suggest they don’t. If they do, there’s something amiss there.... But it’s not happening.*” (Quote from one interviewee)

With the dramatic increase in the funding for highway projects, there is the expectation that the number of projects would also increase substantially. It may be difficult for MDT to meet this expected increase in output without an increase in staffing. If there is no plan to increase MDT staff, educational classes and other forms of training could be incorporated to assist both the public and private sector with design concerns.

“What we’re trying to do right now with a few people around the state is we’re trying to have de-briefings of projects that went well instead of de-briefing the projects that went bad. The idea there is to go out there and find out what’s going right and how come it’s happening right and then try to get that something that happened right to become the standard. Instead of always talking about what’s wrong, lets talk about what’s right and then lets try to get everybody educated on what’s right and then expect them to do that. I think that having end-of-job de-briefings is an excellent idea.” (Quote from one interviewee)

Also contributing to participant confusion in this study was what appeared to be a lack of organization in communication back and forth between MDT and the private sector. The most prevalent area lacking in communication seemed to be in the area of providing a consistent standard of project evaluations. Almost everyone interviewed was a member of a committee or attended various meetings on specifications or evaluation standards. However, it seemed each meeting or committee was for a different purpose,
and there was not a common thread that linked one de-briefing or pre-construction meeting to another in terms of set specifications or standards. One interviewee indicated almost every pre-construction meeting he attended followed a different format, presented different materials and had changed expectations for the outcome of the project.

Another respondent summarized his opinion of the evaluation process by stating:

"MDT has a department that deals strictly with just administration of consultant contracts, other agencies do not. If there's a contract, it will fall to one person or another in some department who relates to that or whom that project is being performed. There's not a lot of continuity in how consultant contracts are administered throughout the agency." (Quote from one interviewee)

MDT does agree that there are several different departments that are dedicated to the supervision, review and evaluation of private sector involvement. For example, MDT has one section in a department where all consultant designs are managed. MDT states this process of management and oversight is standardized, with the same expectations of quality and workmanship practiced by MDT staff for review of all consultants. There is only a question of how these sets of standards are communicated to the private sector.

The communication of the evaluation process was also dependent upon the respondent's particular area of expertise. For example consultant design often requires a more subjective set of standards; a totally different concept of communicating evaluation than individuals who work in the construction area of transportation:

"Privatized highway contracts it's all low bid. You don't have a choice, necessarily, who the bidder is; it's based on cost that they bid. And again, there's differences in them. Differences in their quality, differences in their working relationship, but [MDT does not] do evaluations on that per se, because it doesn't matter. That's not something to be considered. It's again what you bid." (Quote from one interviewee)
Other respondents had very little problem with communicating the standards set by MDT, stating:

"Working with the highway department it's real obvious, they have inspectors, they have a whole bureaucracy that they control what jobs are going to be built. They have to approve the design. They hold the bid openings and they inspect the work as it's being done. They control it pretty much from start to finish." (Quote from one interviewee)

It is apparent there are standards and specifications set within MDT, and the private sector is generally aware of this criteria. But it is in the communication of the details of specifications where content is lost.

Human Resources and Community Impact

A reoccurring theme of discussion throughout this study centered on the partnership that exists between private firms and the state. While the majority of individuals interviewed support a partnership idea, there was concern over the history of such relationship in our state and the impact such a relationship has on communities.

According to one interview, during the interstate program years, the bulk of work went to consultants. There was steady workload and the highway department kept work going to Montana consultants. Firms, through that highway work, were able to build their practices so they could use that experience elsewhere in the U.S. or even internationally. In one instance, in the 1980’s, one major consulting firm located in Montana did over fifty percent (50%) of their business internationally. The international work was based on experience gained during their highway projects within Montana. This firm was able to sustain itself through a rough economic period within Montana by
taking their knowledge and expertise and marketing it outside of the state. A number of consultants built practices around pools of funding such as the early interstate programs.

However, when the funding is no longer at such high levels, it brings an economic pressure on consultants. Another point to consider with cyclical funding is commitment to Montana firms. In the 1980's, when the funding to the highway program ended, the large national firms, which brought people into the state to work on funded projects, left the state. The Montana firms stayed and continued to provide services to clients both inside and outside of Montana.

"To establish a long term program of contracting out allows consultants to build practices, to respond to that.... If it's here today gone tomorrow... fluctuations that that builds into your business don't allow you to maintain the staffs that are necessary to respond when they need it. What we say part of what we do is meet their overload on a timely basis and we can do that. But if it's a.... Also what we're being asked to commit capital investments and equipment and things in order to do things.... We feel that's kind of a partnership and commitment that we're making to put those investments in place.... The other side of that is that we need to work to cover those investments." (Quote from one interviewee)

On a macroeconomic scale, respondents were also affected by the increase of contracts with out of state firms. In Alberta, when privatization began to occur, many of the smaller businesses and contractors were out-bid in the process by larger firms. As a result, there were a number of Alberta based businesses which turned their focus on to Montana and many of the contracts which are bid, particularly through maintenance. As a result, the contracting out process which does exist in Montana became immediately more competitive. This may indicate growth in privatization will affect firms on a larger economic scale. And although an increase in privatization may provide better economic opportunities for some in the private sector within Montana, it is not without some cost to these firms as well.
"If they're interested in economic development in Montana a way for state agencies to do that is to contract with Montana firms so that Montana firms can develop economically and export their services. The state claims on one hand they're real interested in economic development but to them that means bringing firms in from out of state, it doesn’t mean growing the firms you have in state and committing your money to them.” (Quote from one interviewee)

With human resources, it has been stated that the most valuable part of any organization, whether in the private sector or in the public sector is the knowledge, training and skills of the work force. Therefore it is critical to the overall success of any project to develop a strategy which maximized the efficiency of current employees. Such considerations in increasing the efficiency of employees may include remuneration, moral, environment, job satisfaction and perceived worth to the organization.

Literature review supports this concept, and in one case in particular, employee involvement in the process was a major key to success for the maintenance privatization project in Alberta. Due to workshops, newsletters, consultations and briefings, the public sector employees knew from a very early stage of the process that there was a high likelihood that they would win jobs with the maintenance contractors as this was a new business area for industry within Alberta. To facilitate this it was important that as many employees as possible were able to participate in the development of the contract documents for the privatization. (Gerke, 1998.)

The employee consultation was designed to ensure that the employees know what was happening at every step of the process and were able to participate in the project. This enabled them to understand the new administrative structures and also have marketable skills for prospective contractors. (Gerke, 1998.)
While this cycle of moving public sector employees into the private sector worked for Alberta, there was some question from respondents if it would work in Montana. It was generally acknowledged that public employees in Montana are under paid, particularly if compared to their counterparts in the private sector. Respondents also noted that it is increasingly difficult for MDT to keep qualified people based on pay, especially after their initial training:

"On staff there’s a training function that a has been an issue... on the design side for sure. The highway department has over the years a lot of the people who design... a lot of those are in the private sector now. They trained under the highway department and learned their skills and learned their job and or worked there long enough and retired and came to work for private... you can go upstairs in this building and see highway department people. And that’s true in most all consulting firms.” (Quote from one interviewee)

Interviews from this study do indicate a move of human resources from the public sector to the private sector. The study also indicates there is some concern for employment at the end of this particular funding cycle, TEA21. While the pay may be greater in the private sector and benefits and retirement more competitive now than ever, there is still some uncertainty regarding future fluctuations in staff size in the private sector.

"From a pay standpoint, an employee is probably better off.... Davis-Bacon again requires the payment of benefits as well. That includes healthcare and pension. So from that regard again, I think a public sector employee would do very well with that concern. It doesn’t mean that the public sector employee, who changes over to private sector to be hired to do the same thing, is there more risk of being laid off in the private sector? Probably. Supply and demand.” (Quote from one interviewee)

With regard to the geographic size of Montana and population base, there was not nearly as much concern regarding the move of employees from the public sector to the private sector in populated areas. But because so much of Montana is considered rural,
Public employees based in these rural areas have a higher risk of not finding continuous employment if an increase in certain contracting with the private sector were to occur.

Politics of Privatization

It should be noted that privatization is fundamentally a political process as well as a commercial and economic process. Privatization changes the distribution of power within a society, as it redirects control of the economy by the state and government-appointed managers. Two consequences flow from this factor. 1) Choices of approaches are sometimes altered due to “political” considerations, meaning that the equity must be promoted in the privatization strategy, and 2) if a privatization program is implemented it must be objective and fair to avoid adverse publicity. It has become apparent that there is no single “best” approach to privatization; the appropriate privatization path depends on the goals that the government agency is seeking to attain, the individual circumstances facing the enterprise and the economic and political context of the state. (Munshi, 1998.)

The results of this study indicate a close parallel in thought to the reviewed literature that politics play a huge role in the privatization debates. Most of the respondents echo the reviewed literature, observing that if privatization is to occur, it should occur as a result of facts and cost analysis. One interviewee noted,

"It always becomes a legislative issue. If it's going to become a legislative issue, then I think the facts and figures need to go to the public, so that the public has that information, so that they're fully aware." (Quote from one interviewee)

Others agreed with the notion the public should be involved at some level with the privatization process through representation of their elected officials. But there was a
great deal of discussion on how this representation should be made. This was particularly true if situations arise where legislative representatives, Transportation Commission members or other elected officials have a conflict of interest between representing their constituency, advancing personal agendas and taking a stance on privatization issues.

“What we don’t want to be forced into privatization for the sake of privatization. The bottom line here is the private sector can do it cheaper or as cheap... better or at least as good, then we need to consider privatization.” (Quote from one interviewee)

In addition to concern being expressed over individual political agendas, frustration was express about some of the internal organization at MDT and other agencies that may have conflicting political ideas. While different agencies may be involved, respondents felt the politics should be left on the side, with all departments involved in the transportation arena having a clear strategic plan involving privatization.

“I think it should come from the governor. I think it’s difficult to legislate it and I think when you rely on department heads to do it you’re dealing with a dozen different philosophies on it. There doesn’t seem to be a common direction in this regard... almost conflicting going from department to department. Department of Commerce is telling you how important it is to grow industry in Montana; other departments say we’re going to do all the work in house because all they care about is how much they can produce for the tax payer without following through on the economics on that. It needs to be strong direction from the governor. If the legislature gets involved then somebody’s not doing their job on the administrative side. Or they’re at loggerheads on what that philosophy should be...” (Quote from one interviewee)

In a related area, the study revealed that any process of increasing privatization would be improved by creating a dedicated team of public sector senior staff, who clearly have the mandate and ability to access any information within MDT as well as other
departments. They must be highly credible people, generally known in the organization, knowledgeable about the business.

**Figure 4: Outsourcing Involvement**

It is clear however, that all respondents wanted the politics brought into the privatization discussion removed. While total elimination of political considerations will not become a reality, continued open communication and corroboration regarding existing conflicts of interest in both the public sectors and private sector must be identified and publicly acknowledged.

**Summary**

There is a great deal more contracting out, either directly or indirectly, than the general public may realize when discussed in the context of the transportation arena.

Individuals interviewed support the finding of the literature review that a greater concentration of design services should be contracted out. Findings indicate satisfaction
in the construction arena, again with some frustration expressed regarding design. The amount, size and length of construction jobs appear to be adequate. There is strong agreement that maintenance should be a largely MDT function, due to fluctuations in seasonal moisture levels, safety issues and overall cost analysis issues. Overall, maintenance and construction are probably at their optimal level of privatization.

Better lines of communications need to be defined with regard to how some of the evaluations and oversight are administered. Also, findings indicate that there should be better communication regarding pre-bid meetings, pre-construction meetings and end of project debriefings.

The majority of the individuals expressed in some form that there is an appropriate level of personnel at which MDT needs to perform and beyond that there are functions that may be privatized. As in any major change in government operation, public support is a major consideration and many of the choices made in designing and implementing privatization reflect the need for such support.
V. Conclusions and Recommendations

Introduction

The purpose of this study was to interview and report the attitudes of individuals who are currently involved with highway transportation in Montana regarding privatization of certain Montana Department of Transportation duties or services. To complete this study, in-depth interviews were conducted with individuals involved in various areas of highway transportation.

Conclusions

Information collected from these interviews suggested the following conclusions:

- There is no one specific definition of the term privatization. In most instances the term privatization, privatized, contracting out and out-sourcing were used interchangeably. True privatization, where funds would be dispersed completely to the private sector and the private sector would then conduct all activities, is not considered appropriate for Montana with regard to transportation issues.

- There is no clear indication financial savings would occur if the overall mix changed. If savings were realized, it would probably be in the construction area and a direct result of improvements and changes in the design process. The second most likely area of savings would result in increasing the privatization mix in the design process, if there were an improved design process where outsourcing projects to consultants increased and MDT staff moved more into a true supervisory, review and assessment role. There would be no savings in the maintenance area if the mix between public and private sector were changed. Factors such as inconsistent weather, workforce issues, geographic restrictions and safety issues contribute to this finding.

- There would be no savings from any change in the public and private sector mix with regard to buildings, equipment or land. Increasing the public sector with regard to human resources is unrealistic, due to lack of competitive compensation. Moving personnel or labor more toward the private sector may be a short-term cost saving; however, long-term savings are unclear, due to seasonal employment fluctuations, training and qualified employee issues, taxation, and benefits of individual income.
• MDT should be responsible for determining the increase, decrease or maintaining the level of privatization. Politics or political influence from other entities, either directly or indirectly, should not be given consideration when determining the level of privatization.

• There is significant room for improvement in oversight of some of the privatization issues. Both the public and private sector expressed a great deal of confusion over how MDT oversees the services provided by the private sector. It is clear that MDT has departments that manage contracts and plans for consulting, construction and maintenance, but it is unclear if there are specific procedures or processes that are to be followed. Maintenance’s procedures for overseeing projects are well defined, but are also usually project specific.

• There is a great deal of confusion over how MDT evaluates the success or failure of privatization or private sector performed services or projects. There is no apparent set process that involves design consultants, constructions or maintenance. Again, of the three, maintenance is probably the most clearly understood, simply because of stated specifications for projects. Both construction and design have little evaluation made regarding completing the project, quality, timeliness or problems arising during the job. Design consultants may view their evaluation of success or failure based upon their relationship with MDT.

• There is an overall satisfaction with the current mix of private and public sector work with regard to privatization. The area of maintenance is discussed the most with regard to privatization changes, but it is the area with the majority in agreement that privatization is not appropriate for the majority of it’s operations. It is also the best defined in terms of its scope, function, and administration. Satisfaction with consultant design could be improved if more projects were privatized mainly to increase the efficiency of MDT in reviewing and getting projects out. In the area of construction, there is general satisfaction with the current privatization mix between the public and private sector.
Recommendations

Based on the findings of these interviews and the resulting conclusions, the following recommendations seem appropriate:

- The terms “privatization” or “privatized” are too general in nature. Discontinue the use of the term “privatization”, and use more accurate descriptors such as “contracting out” or “outsourcing.”

- Maintain the current mix of contracting out or out-sourcing for the areas of construction and maintenance.

- MDT should investigate increasing the amount of outsourcing and re-direct MDT design as project review and oversight for possible improved performance in the area of consultant design.

- Policies, procedures or minimal criteria should be established for design projects contracted out to the private sector. If minimal design standards are not met, designs should be returned to the private sector for corrections, rather than having MDT staff make modifications or corrections to the design.

- Joint educational and training opportunities should be better advertised and made available to both MDT and the private sector, with shared tuition costs. Such opportunities would educate all parties involved as to acceptable standards of design, construction or maintenance.

- Use as much performance based specifications as possible in any type of contracting out. This allows for innovation and may reduce costs.

- Determination of the levels of contracting out or outsourcing should be made by the administration of MDT, without being encumbered by political forces, either internal or external. To facilitate in coping with political issues, some form of an arbitration committee should be created. The committee, made up of peers within the transportation industry both from the private and public sector, would review and make recommendations to MDT administration on a wide range of grievance issues. The committee would also provide a forum for commentary, discussion and employ arbitration on other issues surrounding highway transportation.
• MDT needs clearer and more communication, both internally and externally, describing the processes of oversight of projects. A clear set of standards for design and construction should be developed. Maintenance standards should be reiterated. All standards should be made available and communicated regularly, in forums such as pre-bid procedures or pre-construction meetings, contract administration, or in widely used media such as the MDT website.

• Development of a better defined, more clearly outlined process for expectations and evaluations needed to keep the contract language simple but accurate, and have those that do the work assist in defining it and how it will be measured. These standards for evaluation of performance should be determined, documented, communicated and enforced.

• This study should be replicated after five years, with some modifications to the questionnaire, to continue to provide feedback to MDT and other interested parties regarding contracting of certain MDT functions or services.
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Appendix A: Survey

Questionnaire: Privatization of Certain Transportation Services

The major purpose of this focus study is to gather and report the attitudes of individuals involved with highway transportation issues in Montana regarding privatization of certain transportation duties or services. Personal interviews will explore privatization and individual opinions on the reliance on private enterprise, market forces and competition for providing public services. The results of the interviews will provide an indication as to whether or not privatization may be a desirable alternative by which to save tax dollars without compromising the availability and quality of state services.

1. What is your understanding of privatization when it is discussed within the context of highway design, construction, maintenance or administration?

2. Based on your response of question 1, do you believe lesser, greater or the same level of privatization would result in financial savings to the State of Montana?

3. Referring to your answer on question 1, do you feel there is a need to move from the current mix of privatization to a lesser or fuller privatization model to ensure effective utilization of physical/human resources for the State of Montana? (i.e. staff, buildings, equipment, land, etc.)

4. Again referring to your answer on question 1, who should be involved in the determination of the decrease, increase or maintaining the level of privatization?

5. According to your understanding of privatization, how does the State of Montana oversee the services that are provided by privatization?

6. According to your understanding of privatization, how does the State of Montana evaluate the success or failure of privatization?

7. In your opinion, from a service provided level, is the current mix of state and privatized services in the transportation arena successful for the State of Montana?

Do you have any additional comments?

Do you have any questions?

Thank You!
Appendix B: Selected Comments from Interviews

At the beginning of each interview, the researcher requested permission to tape the conversation to accurately interpret the views and opinions of the respondent. The researcher stated direct quotes may be used in the paper, but would not be used in a context other than intended by the respondent, nor would a quote attempt in anyway to identify an individual without their prior knowledge and consent.

After interviewees gave consent, the remaining conversation was recorded. After each interview the researcher transcribed the recordings into written form. Due to the confidential nature of the interviews, these transcripts are not presented as either part of the findings or in an appendix.

However, comments made during the interviews were extremely revealing. These statements brought forth insights, thoughts or emotions that could not be accurately conveyed within the normal context of this paper. Because of the candor and openness the respondents expressed during the interviews, the researcher felt it was suitable to include some comments made by interviewees.

Question one: What is your understanding of privatization when it is discussed within the context of highway design, construction, maintenance or administration?

"Defining privatization comes down to personal preferences and interpretation. It comes down to philosophical differences and that inherently people believe that if you're doing it with the government you're not doing it for profit therefore it's cheaper therefore we're saving all kinds of taxpayer money..."

"A transfer of the way you do business from a public sector entity to a private sector entity, a profit for hire, if you will, organization.... So privatization from our standpoint, is taking public sector out of it, in other words, reducing government, in the
name of reducing government as far as size goes, and putting that money towards private sector in doing those goods. It's usually cloaked in a context of a way to save money...."

"I think that where a lot of the rub comes is in counties where people in my field...you go by and you see the county out there building roads, they've got their own asphalt plant, their own crushers, they're doing it all. They're not doing it the same way they that expect the contractor to do it. If they let it out for bids...when they put something out for bid they put a lot of specifications on it...compaction specifications, and a lot of different things. And if you watch them do it, they don't follow those same specifications when they do things themselves. So naturally you're getting it cheaper in a sense, but you're not getting as good a product as what they would expect from us...it completely skews the picture when you don't follow the same specs."

Question two: Based on your response of question 1, do you believe lesser, greater or the same level of privatization would result in financial savings to the State of Montana?

"I think that some things...there's a gray area there...there really is. You need somebody for on the maintenance side, that can kind of be on call. Snowplowing, that sort of thing. It may or may not be cheaper for a private contractor to do that...if he's depending on this, then he's got to have the equipment to do it.... At the same time if we have a winter like we had last winter he's not going to stick around because he didn't get to do anything. And if he has to do something in order to earn money.... I think you would end up with a lot of smaller operators getting into the maintenance areas and when you have a winter like last winter for example, they would maybe not make it financially. And if you had a tough winter, they're not going to be able to keep up...."

"I don't believe there's any privatization on-going right now, there's outsourcing going on, which is different than my understanding of classically what's termed privatization. So I'm going to qualify it by saying I don't think there's any privatization occurring, but there is outsourcing of certain of those functions you mentioned, design, construction, maintenance and administration.... Well, I'm not sure about administration, but the other three. I personally believe that a far greater level of outsourcing would result in a more effective use of the total highway dollars that come into the State of Montana."

"Well, that's a loaded question because the last phrase is result in financial savings. I don't think that there's a great deal of difference in the final cost to the citizen whether it's done in the private sector or the public sector.... A lot of those issues are matters of perception rather than hard fact. Depends on your point of view, what your perception of all that is.... So it's kind of like a lot of other things, it depends on the spin you put on it...."
Question three: Referring to your answer on question 1, do you feel there is a need to move from the current mix of privatization to a lesser or fuller privatization model to ensure effective utilization of physical/human resources for the State of Montana? (I.e. staff, buildings, equipment, land, etc.) in the context of highway design, construction, maintenance or administration?

"Staffing is something that I think is going to be the true issue, for us anyway, if we go more privatization or less, I'd say less. I can't see us doing any less unless the program decreases. But any increases, or even at the current level, we're having enough problems hiring competent staff, privatization's coming, just on that basis...."

"I think trying to find that balance is really key deal. I think it's something you have to constantly monitor. You can't say well this is where we were 10 years ago and that's where we're going to stay..."

Question four: Again referring to your answer on question 1, who should be involved in the determination of the decrease, increase or maintaining the level of privatization?

"Well, I think its beneficial when the agency itself and the private sector can sit down and come up with agreements that they can both live with. That kind of takes the politics away from it. And I think everybody wins on that kind of thing. But ultimately the policy makers the legislature, the governor. They're going to be involved in the process at some point or other."

"I think clearly it should be the people responsible for managing this business. With input and consultation with politicians and legislators. Certainly the Montana Contractors' Association, the labor unions and those various people who all have a stake in this. I don't believe the reasons should be made for political reasons. Just because it's the political thing to do. I think it should be made with good solid information from all those sources, put the numbers on paper, and if it's a good business decision you do it. And if it isn't, you don't go there."

"We all should. We all should. We're all players in this. I can relate my problems in trying to build a job for the highway department and offer some solutions to the problems that I can present. So therefore I should be a player in that decision. And the highway department has to be involved to obviously because its their money and its their project. And they've got to understand... I have to understand what their problems are when I make a suggestion. It's not always just so simple to go hire a consultant; it's not always so simple just to let the contractor buy the material because of lead-time and what not. So I think everyone has to be involved in that decision.... Every player."
Question five: According to your understanding of privatization, how does the State of Montana oversee the services that are provided by privatization?

“Going back to my previous statement about what the role of the highway department is if they do go out and hire consultants then they should be overseers. I've witnessed an awful lot of projects that come out by a lot of different consultants and some consultant designs are good and some are bad. The ones the highway department has to deal with that are bad means they have to put more resources into that particular consultant. So if we’re going to get even quality of all projects out there that means the highway department has to address the good consultant designs vs. the poor consultant designs. They're an over-viewer in that case.”

“We have two things we have to do. Number one, we have to provide people to oversee the contracts, but just as costly for us, we have to train the people to oversee the contracts so they know what their overseeing. You just can’t put a guy out there, and unfortunately I see that at times in a pickup, staring around in the sky and stuff like that. He has to know what he’s looking for and he has to be aware of what he’s looking for. We do a lot of contracted services because those people, contracted people, are the experts. We do that overseeing to make sure we’re getting what we asked for, then we have to train our people to at least have knowledge of it. Maybe they’re not the experts, but they have to know the difference between what’s right and wrong.”

“...Probably eighty percent (80%) of the work done in house is done correctly and doesn’t require a lot reworking, the other twenty percent (20%) is probably crappy, and on the private side about eighty percent (80%) of it comes in pretty good and the other twenty percent’s (20%) not worth crap and you have to do it over again. I don’t think it matters whether the people are on the private side or the public side. Eighty percent (80%) of them work hard and the other twenty percent (20%) don’t. Whether it’s design, maintenance or construction. I’m sure there’s a lot of contractors that probably about eighty percent (80%) of their workers perform pretty well, and the other twenty percent (20%) they have to weed out and get rid of.”

Question six: According to your understanding of privatization, how does the State of Montana evaluate the success or failure of privatization?

“I think it’s... from our standpoint, it’s two or three fold. Obviously cost. We still benchmark our costs vs. what the costs of private sector is doing. But you have to go deeper into those kinds of costs as far.... I think we look at quality, quality’s got to be a big issue. ....It took a long time for us to get over this hurdle of being willing to pay for quality. Quality is a big issue. ...One of the things privatization has done for us has allowed us to raise the bar in quality in a lot of the work we’ve done. And so I think that’s been a very positive deal.”
"For a contractor they're interested whether he gets it done on schedule, under budget, how he approaches a change order thing, or how he interacts with the state people."

"We'll continue to try things. It's o.k. to try things as long as everybody understands if it's a mistake you back out of it and you take a different path. Anything we try is not carved in stone, it's just on a piece of paper and you say, oops, it sounded good, but in reality it didn't work, pull back, let's go and try something else."

Question seven: In your opinion, from a service provided level, is the current mix of state and privatized services in the transportation arena successful for the State of Montana?

"Yes, I think it is successful for what it is now and as I said, we're looking at expanding what is to be privatized. With the same thing in mind, that both parties, the department and the contractors, want it to be a success to the benefit to the taxpayers of the state. We have every reason to believe that will be the case because anytime the department has paid for anything that has been done by the private sector it has been a big success. Whether you're talking about construction or maintenance...."

"In my opinion, no. To establish a long term program of contracting out allows consultants to build practices, to respond to that.... If it's here today gone tomorrow... fluctuations that that builds into your business don't allow you to maintain the staffs that are necessary to respond when they need it. What we say part of what we do is meet their overload on a timely basis and we can do that. But if it's a...also what we're being asked to commit capital investments and equipment and things in order to do things...we feel that's kind of a partnership and commitment that we're making to put those investments in place. The other side of that is that we need to work to cover those investments."

Other comments about the future of privatization in Montana:

"I think that as long as you have good communication, good positive communication between the public sector and the private sector, in this case the Department of Transportation with the contractors or the engineers, then I think you have all sorts of possibilities for privatization because the department maintains that they support privatization as long as it makes sense for the tax-payers. And so then it's just a matter of working out where it would work and how it would work and the details, which are extremely important. But it can be done as long as people are willing to work together on it instead of fighting against each other as a turf battle."
"If you were the boss of the whole world and you got to choose how to get something done, and your goal was to do the best job that you could with the minimum of expenditure that it would take to do that... the best bang for the buck.... You would probably being having an open mind about who would do that and the way it would get done. By and large, any construction oriented type project that’s large would probably be done better by privatization. The motive is there, profit is a wonderful motive, and it will work well that way. If the project was one of maintenance or something like that where you had to pick up loose ends, you’d lean real hard toward having the government forces do that. And that’s sort of where we’re at with the whole system right now. It’s not very far out of whack..."

"I hope we stay where we are. I think the issue will be brought up again and again. But with the economy as good as it is, I don’t think the contractors and others are going to raise as many red flags right now."

"I think the highway department is antiquated in a lot of ways and they need to think differently about things. One of the areas that I think they need to think very seriously about that is privatization that they can still control would be the design-build issue. And they’re afraid to tackle it. I really feel that the future as far as privatization goes, that would still protect interests of the Montana citizens in the way of major rehabilitation new construction is in the area of design-build. And the highway department has not taken a proactive stance there like they should. They’re afraid of themselves; They’re afraid of the whole issue."

"Wisconsin says they privatize all their maintenance. What they do is they pay the counties to do all their work. They sub-contract to the county. Now that’s another governmental entity. That to me is not privatization. Privatization is private sector. People for profit. Profit for hire."

"I think that the organization is very, very slow to change. Change is a threat. And I think there are personalities that are afraid to take that on. And I think it’s not as much the personalities necessarily in the highway department itself, I think there’s some problems with commissioners and others too. I don’t think it’s just not pointing my finger at the engineers and so forth necessarily, I’m pointing my fingers at the commissioners and the whole way things are done. ...But on the other hand, the highway department has taken initiative in certain areas, and been in the forefront. One area is the CPC exams, the Certified Professional Constructor, that level one their saying that that’s the equivalent of the FE exam for people coming to work for us in the construction arena. That’s very proactive. So I see proactiveness there; there’s some problems though with either commissioners and politics and so forth for them to do certain things. They’re not given.... I don’t think Gary Gilmore and Jim Walther who I know personally, are given enough freedom by the highway commissioners and so forth to do what’s right. I think
the two of them, and the whole agency is restricted. The two of them I think are proactive people but I think they're restricted. Too many strings, that comes from the legislature and goes to the commission and is put on them. I think they ought to be allowed to fly a little bit, with all the money that’s coming and everything, we need to react to that properly."

“Basically the highway department and Montana contractors’ are working together as good as I’ve seen it in twenty years right now. But when it comes to this issue of privatization there’s distrust on both sides.... No matter... and I’m in the middle here.... I see both sides of it. There’s distrust on both sides and so any studies or anything else cannot be done by the contractors and cannot be done by the highway department. It’s got to be done jointly, agreed upon... a neutral agency, someone from the outside....”