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*The Commonwealth of Massachusetts*  
HOUSE COMMITTEE ON POST AUDIT AND OVERSIGHT  
HOUSE POST AUDIT AND OVERSIGHT BUREAU  
ROOM 146, STATE HOUSE  
BOSTON, MA 02133

SPECIAL REPORT

SUBCOMMITTEE ON PRIVATIZATION

PRIVATIZATION OF ESSEX COUNTY  
HIGHWAY MAINTENANCE:  
PRIVATE PROFITS AT TAXPAYERS' EXPENSE?

June 9, 1993

THIS REPORT WAS PREPARED AND ISSUED UNDER THE MANDATES OF  
MASSACHUSETTS GENERAL LAW, CHAPTER 3, SECTIONS 63 AND 64.

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BUREAU DIRECTOR  
Thomas W. Hammond, Jr.

## BACKGROUND

The House Committee on Post Audit and Oversight has directed the House Post and Oversight Bureau (the "Bureau") to examine several contracts and programs related to the current Administration's privatization initiatives. The Administration, in a March 1, 1993 mailing to Massachusetts Legislators summed up its privatization approach as follows:

"By injecting competition into the governmental process, improved services are being provided in a more efficient manner while freeing up valuable resources for expanded services in many areas. Privatization has been beneficial to both those receiving services from the Commonwealth and to the taxpayers."

While the policy of contracting out for services with private vendors as a way of reducing government involvement has been around for many years, it has recently been popularized in Massachusetts through books such as "Reinventing Government: How the Entrepreneurial Spirit is Transferring the Public Sector", by David Osborne and Ted Gaebler. The current Administration has made privatization one of its top priorities. (See attachment "A"). Based upon several ongoing investigations, the Bureau is concerned that many of these initiatives appear to be efforts to maximize the number of functions privatized without regard for the quality of services being provided or the long term fiscal implications.

Generally, the Bureau has concluded that the current Administration has not utilized a consistent methodology to

determine whether business or government should provide a particular level or type of service at the lowest cost.

From a historical perspective, there are a number of instances of private contractors providing "public" services. The human services sector was one of the first and largest shifts from state to private service providers. Many of these private contracts were derived from the court-ordered consent decrees which deinstitutionalized clients from the Department of Mental Health ("DMH") and the Department of Mental Retardation ("DMR") facilities.

This massive expansion of private providers of human services was beneficial to many clients of DMH and DMR, but was not without problems. The House and Senate Post Audit and Oversight Committees, the Inspector General and the State Auditor have detailed abuses and programmatic shortcomings with so-called "03" and "07" human services contractors. In addition, as recent events at several state institutions have demonstrated, there are many clients that have clinical needs which cannot be met in a non-institutional setting. In the Administration's rush to close state facilities, deinstitutionalized clients are becoming homeless, incarcerated or shifted to inappropriate institutional settings. This may be indicative of shortcomings within the private vendor system.

Other privatization efforts have proceeded without a great disruption to clients. Food services at some state colleges

and institutions have been provided by private vendors for many years. The Department of Public Works ("DPW") has contracted out for snow removal for several years. The Executive Office of Elder Affairs allocates \$31M per year to 27 private, non-profit home care corporations to provide services to elder citizens. All of these privately provided services generally receive high marks from the public.

#### BUREAU REVIEW OF CURRENT PRIVATIZATION EFFORTS

The Bureau believes that is it makes little sense to embark on widescale efforts for privatization without getting a firm grip on wasteful and unnecessary spending on private outside consultants. The growth of consultant contracts accelerated during has the last few fiscal years and has become a major program component in such secretariats as transportation.

In addition, there appears to be no comprehensive plan that has been proposed that evaluates the true costs and benefits of each and every privatization initiative. Areas of traditional government operation have been targeted for privatization with little documentation as to true costs versus true savings. Indeed, without the support offered by such financial analysis, these privatization efforts are viewed by some as simply a way to purge the state workforce or to create an artificially low state budget.

Moreover, in several instances, the Committee has found clear cut evidence that some contractors are simply pulling lucrative portions of the contract off the top while failing or refusing

to provide the complete range of services. These less profitable services profitable then fall back to the state by default. In some of the efforts to privatize DMH for instance, there are serious questions about whether a proper safety net exists and whether the full range of required services are being provided, due to the "pick and choose" mentality of private vendors.

Some mental health professionals admit that forensic patients, as well as clients with AIDS can drive a profitable privatization contract into an unprofitable one. As a matter of fiscal policy however, it does not make sense for the Commonwealth to contract on a piecemeal basis only those functions which can generate profits to private providers. Economies of scale must be considered as part of the total privatization package.

In the area of privatization of public works, there are other major concerns. First, there has been a lack of documentation that shows how huge capital outlays made by the Commonwealth for equipment and infrastructure have been taken into account in the analyzing the cost of programs. Moreover, because public safety and potential tort liability are major concerns for the Commonwealth, the level of oversight on private contractors maintaining roads is an area of critical concern. The Commonwealth cannot contract away its public safety responsibilities. To the extent that the Department has incurred long term capital costs, those costs must be weighted into

private contract bid considerations. These costs must be accurately reflected in each bid process.

It does not make fiscal sense for taxpayers to subsidize capital formation for private contractors, for the sake of another privatization "victory".

The Post Audit Bureau has found a number of areas in contracting for the maintenance of public works, where the level of oversight needs to be improved dramatically. While it may make sense to privatize certain functions, the Commonwealth is ignoring its fundamental and statutory obligations to its citizens by failing to oversee the provision of basic services through certain privatization contracts.

#### PRIVATIZATION OF ESSEX COUNTY HIGHWAY DEPARTMENT

By far one of the most controversial privatization efforts launched to date, involves the privatization of the Essex County Highway functions previously performed by the Massachusetts Highway Department. The Administration's claims of savings have been challenged and countered by public employee unions and other parties who allege that the private contractor has failed to provide adequate service, while receiving a substantial state subsidy.

The Bureau has spent almost nine months evaluating the contract, the performance of the contractor and the state privatization team assigned by the MHD to assist the contractor. The Bureau

notes that despite numerous attempts it has been extremely difficult to get definitive cost and service provision data from MHD. At the outset, the Bureau must remark that the lack of clear cut and segregated record keeping by MHD for the privatization effort has raised concerns generally about the entire effort.

In the course of its examination, the Bureau, along with engineers and other technical experts reviewed the contract documents, the union contract proposals, conducted several field inspections and reviewed numerous memoranda and other documents created by MHD, the affected unions and other sources. The following findings are the product of this analysis.

#### **I. THE CONTRACT**

The Bureau spent a significant amount of time analyzing the contract. There did not appear to be a coherent cost benefit analysis which motivated the choice of which MHD functions were selected for privatization and which were not.

Rather than select specific items which were the highest cost and/or the easiest to evaluate, MHD chose to privatize the entire maintenance operation of Essex County, thereby including a variety of functions where performance, cost, and quality of work were all difficult to segregate. Moreover, the Bureau found it particularly troubling that many of the items contained in the contract were vague or totally discretionary. Many of the items

had no deadlines or time frames and others had time frames so broad as to preclude meaningful performance audit. The contract as written was much too flexible to easily determine the true costs and benefits of the privatization effort. Further, because some of the items did not specify that any particular items be completed for any specified time frame, the option to defer maintenance and/or defer more costly projects to make the numbers look good was a very real consideration. During the last several months, the Bureau compiled an extensive photographic record of the roadways covered by this contract to document its analysis.

The Bureau noted the following contract areas where oversight was problematic:

- Contract Language -

"Item 106.46            Bridge Washing

General

The work under this Item consists of cleaning and flushing:

- o the concrete bridge seats;
- o steel bearing assemblies and structural steel within the limits of the vertical faces of the abutment and pier caps;
- o bridge scuppers and downspouts;
- o abutment drains; and
- o drainage troughs.

This work will be per assignment which could include cleaning, under the direction of the Engineer, any combination of the bridge components previously listed.

All debris, sand, dirt, bituminous concrete and bird droppings shall be removed by the pressure of washing equipment. Material that cannot be removed by power washing equipment shall be removed by hand tools at the direction of the Engineer. The Engineer shall determine when the cleaning and flushing of each location is satisfactory."

- Bureau Comment -

This item fails to adequately specify particular structures, time frames, and standards capable of performance review. There are no minimum or maximum requirements for these washings. Either there are criteria which require that bridges be washed (i.e. to prevent corrosion, and deterioration) or the item is superfluous.

- Contract Language -

"Item 106.862

Highway Cleaning

Linear Mile

The work to be done under this item shall consist of the removal and satisfactory disposal of all sand from winter snow and ice control operations, leaves, refuse and other debris which has accumulated within the layout of all state highways in the Department's District #5 area.

All highways to be cleaned include undivided highways, divided highways, ramps, approaches, rotaries, existing turnouts, single or interconnecting roads designed for U-Turns, etc. Each section will also include both sides of the intersecting single or divided highway at grade separations for the entire length between the ends of the bridge and the limits of all adjoining ramps, including transitions and the bridge itself.

The District highway layout encompasses approximately 360 linear miles and this proposal specifies that all roadways receive approximately 1 1/2 complete cleanings over the duration of the contract. The first partial sweeping is to commence promptly upon receipt of the signed contract and the work shall be completed to the satisfaction of the Engineer within 60 calendar days. This partial sweeping shall consist of approximately 160 linear miles of highway to be cleaned and shall be as directed by the Engineer. The second complete sweeping shall commence promptly after April 15, 1993, and shall be completed within 60 calendar days."

- Bureau Comment -

Here again the cleaning portion of the contract does not articulate that specific roadways be cleaned on particular dates.

The Bureau's inspection of more than 250 miles of Essex County state roads in late May, 1993 revealed no evidence of sweeping or cleaning on any of the roads. Given that the Bureau's visual inspection was completed on June 7, 1993, it was difficult to believe the entire 360 linear miles could be swept and cleaned by June 15, 1993.

- Contract Provisions -

Items 201, 202, 220.2, 222.3 and 241.12 related to drainage structures. With respect to these items, the contract stated: "when it is determined that a structure will require rebuilding 3 vertical feet or more below the bottom casting, the structure shall be replaced in kind."

- Bureau Comment -

Here again this vague standard made objective review extremely difficult. It is not clear who determines when a structure will be rebuilt nor does it identify that anyone conduct an inspection to mandate that such work be completed.

- Contract Provision -

Item 226.11                    Cleaning Drainage Structures

This item contained the wording "Certain catch basins which are inaccessible to cleaning equipment are not part of this contract and those catch basins will be designated by the Engineer."

- Bureau Comment -

It was not possible for the Bureau to determine what areas were designated. The Bureau's visual inspections did not reveal that any of the catch basins inspected were recently cleaned. With no time frame built into this section, it was difficult to determine whether in fact any work had been done. Moreover, without on-site inspection and insertion of a measuring device into the basins, a partial cleaning could make it appear that the entire basin structure had been cleaned. A cursory inspection would not determine whether the top had been cleaned or whether the entire structure including the sump was serviced.

- Contract Provision -

"Item 955

Treated Timber

MBM

Work under this Item shall include the furnishing and installing of treated timbers for bridge decks, timber wheel guards, scupper blocks, sidewalk decks, bridge rails, bridge stringers and bridge sills to replace existing timber posts, bridge elements that are unsuitable for continued use. The work shall be in accordance with Section 955. of the Standard Specifications and Division II, Section 20 of the 1986 Standard Specifications for Highway Bridges adopted by AASHTO, supplemented by the following:

Material

The new timber shall be stress-graded Douglas Fir (Pacific Coast Type) or Southern Pine, Fb = 1600 PSI and Fv = 95 PSI or higher as specified by the grading rules of the West Coast Lumber Inspection Bureau or the Southern Pine Inspection Bureau.

Removal of Existing Timber

The removal and satisfactory disposal of existing timber that is unsuitable for continued use, including but not limited

to timber stringers, timber sill plates, plank decking, timber curb, and timber railing, shall be considered incidental to this Item.

All costs for removal of same shall be included in the unit bid price of this Item at no additional compensation."

- Bureau Comment -

This item was particularly troubling for the Bureau. Not only did the winning bidder attribute a \$300.00 cost to an Item that MHD stated should cost \$488,850, but nowhere did the contract specify the time, place and manner of installation of these items. Given that this particular item resulted in an almost \$900,000 difference between the first and second bidders, and given the complete lack of specifics as to when and where these timbers were to be used, if at all, the Bureau was extremely concerned that this item was so ambiguous as to give the MHD an easy vehicle to message the numbers. In reviewing the initial specifications, the Bureau noted that documents provided by MHD indicated as of 5/12/93 only 7.23 timbers representing a cost of \$7.23 were used. The Bureau checked with DEP and found that no notice of disposal of removed timbers had been received. The Bureau did not have any basis from which to determine where these timbers were installed or how they could meet the specifications given the costs listed by the contractor.

The Bureau also noted a number of other areas where the contract appeared to be problematic. The range of costs

submitted by the various vendors was quite large and it appears that the level of understanding of the bidders was either very low or the RFP was so ambiguous as to lead to widely varying interpretations of what was asked for. (See chart of selected items, exhibit 1.)

## II. MHD ANALYSIS OF ESSEX COUNTY PRIVATIZATION

MHD has claimed a number of savings that are allegedly attributable to their privatization efforts in Essex County.

1. Equipment - MHD claimed that \$1,003,000 worth of equipment transferred to other districts resulted in a savings of that amount. "This is \$1 million worth of equipment the Department is able to utilize to replace worn or broken equipment in other districts. In the absence of privatization, this \$1 million savings would be lost."

The Bureau believes that this analysis is flawed. It assumes first and foremost that the contractor is not charging MHD for the use of the contractor's equipment on the privatization contract. It also fails to account for the costs incurred to operate that equipment in the first place. There are no true savings to the Commonwealth by transferring state owned equipment from one district to another. The Commonwealth continues to pay for the capital costs of this equipment no matter which district it was transferred to. Ultimately, the Commonwealth will have to pay for its aging fleet of heavy equipment - either by direct capital outlay or by increased costs paid to outside vendors.

Another concern articulated by the Bureau relates to the expectations created relative to this privatization effort. MHD made repeated claims that the resources of the district were significantly depleted - that the equipment that was remaining just prior to privatization was allowed to deteriorate to poor or unusable condition. The Department admitted as much and noted this was a department wide problem. The Bureau questions a management decision that allows for the deterioration of the Department's rolling stock and heavy equipment: is it merely a convenient justification for privatization? Was the lease or purchase of new equipment ever explored as an option in this regard? What happens if privatization proves to be a complete failure? If the Department's equipment was knowingly allowed to deteriorate, it obviously created an artificial base from which to measure the benefits of privatization.

The Bureau was also informed that a substantial percentage of MHD's heavy equipment was recently sold. This sale appears to have taken place without comprehensive analysis of the condition of the equipment sold and without a complete assessment of whether equipment was needed in particular districts. The Bureau also noted that the Department was constructing garages and buildings in areas that were to be slated for privatization in the very near future. These items raised other concerns as to resource allocation of the Department.

### III. CONTRACT QUANTITIES

The quantities of certain items inserted in the contract is also problematic. The contract was written to cover "all work that may be necessary" according to MHD. The Department retained the right to determine which items that would "be necessary". The Bureau believes that only those items which could be quantified with some degree of precision based on historical data and/or performance by other districts should have been included in the determination of what amount of services was needed.

MHD considered the flexibility of their contract to be a positive factor. MHD stated, "It should be noted that the concept of this contract was always one of flexibility. In other words, it was never anticipated that every item would be used to its exact quantity. Overruns in one item could be offset by underruns in another item or items. We expect to overrun some items, and we know we will experience underruns in other items."

The Bureau is trying to determine if these statements were communicated to all of the bidders on the privatization contract. If the MHD deliberately understated or overstated items in the proposed contract, it may have created unfair advantages for certain contractors. For instance, Middlesex bid only \$300.00 for 300 treated timbers costing more than \$1,600.00 individually as listed by MHD's specifications. This timber item was later said to be listed incorrectly. Despite this fact, this "error" continues to be made as of the 5/12/93 progress report.

Was MHD implying that they had complete knowledge of some items and were simply speculating about others? The Bureau is extremely troubled by the flexibility component of this contract. This flexibility as manifested in the provisions indicates that MHD did not have a firm handle on which services it thought it was required to provide. Its also leaves substantial doubt as to what management considered to be essential maintenance services given a fixed level of resources. It also provides an unequal base of comparison as the MHD employees did not have the same flexibility in FY'92.

MHD has claimed that certain savings resulted from transferring 83 employees from Essex County to other areas in District 4. The "savings" were computed by taking the starting hourly wage + .25 benefits x 40 hours/week x 52 weeks x 83 employees. The MHD then stated that; "The actual average salary of the workers in Essex County was \$30,958 (average salary of \$23,277 x .33 benefits). Therefore, if the Department has chosen to lay off these employees, it would have claimed a savings of \$2,569,514." These calculations are based on a simplistic view of what actually happens. It ignores the fact that the contractor is billing for wages and ignores the fact that these employees were allocated to positions that otherwise would have been filled. These "savings" also fail to compare a constant level of services provided, and assume every required task will be performed.

In materials submitted to the Post Audit, MHD submitted a cost comparison:

<u>FY'92</u>	<u>Cost Comparison</u>	<u>Privatization</u>
\$5,224,622	salaries/benefits	\$1,330,888
\$ 393,254	maintenance/overtime	\$ 150,000
\$ -0-	contingency	\$ 250,000
\$ 24,975	materials	\$ 6,000
\$ 116,875	vehicle maintenance	\$ 26,415
\$ 257,700	administrative costs	\$ 183,925
<u>\$ 419,709</u>		<u>\$3,687,158</u>
\$6,637,135		\$5,844,386

In this comparison, MHD states that the savings will be \$800,000 (\$792,749). The Bureau is puzzled by the analysis. The figures indicate that \$1,330,888 in salaries remain in the Essex County district plus overtime of \$150,000. The charging of \$1,330,888 in salaries is not explained. Is MHD stating that the employees who remain in Essex County work full-time on privatized functions or work in addition to the activities that are privatized? There is no explanation of whether the \$419,709 for contract work is the same contract work that is included under privatization or that adjustments were made for changes in contract items.

As already noted, MHD has made much over the flexibility component of the contract. Overruns in one area could be made up by savings in another area. Was the FY'92 expenditure by Essex County evaluated with that kind of flexibility? In other words would the projects that incurred overtime in FY'92 be dealt with by savings in different areas in the privatized contract? In effect, MHD is comparing a floating cost figure with one that requires itemization of every expense and is therefore fixed.

The savings figures presented by MHD are simplistic, based on illogical comparisons, and in large part premised on self fulfilling prophecies. If MHD places a cap on the privatized activities and requires the remaining state employees to handle all the emergencies and to fill in the gaps, then privatization has not remitted any savings at all. Under this method, private contractors simply bill for services limited by amounts determined by the maintenance engineer.

Based upon what the Bureau has seen to date, MHD has made every effort to achieve savings on paper that can be attributable to the Essex County privatization without complete substantiation. Based upon the preliminary review, the Bureau notes the following:

1. The privatization contract was a totally flexible and discretionary contract that allowed MHD to claim whatever it wanted to in terms of expenditures and overtime in the privatized district.
2. MHD's Administrative actions in the years preceding the privatization contract have allowed for substantial deterioration in services provided and in the condition of equipment. These administrative actions in the district have created a false basis of measurement for the privatization effort.

3. MHD failed to consider and develop adequate measurement devices to monitor the privatization contract. The contract as written was subject to manipulation by MHD and appears to be part of a concerted attempt to make this project be successful no matter what the results, or the true costs.
4. The Bureau found some evidence that could justify privatization of discrete tasks or functions if properly analyzed on a case by case cost benefit analysis. The Bureau could not however justify a wholesale privatization of the maintenance effort with a totally flexible contract. The Bureau found that the oversight component was sorely lacking in the administration of this contract.
5. The Bureau found ample evidence that MHD was not objective in its approach to this effort. For example, the MHD employee assigned to head up the privatization effort apparently had his base salary increased from \$25,421 to \$54,063, a salary increase of 113%. If this experiment was to be meaningful for the Commonwealth, then objective impartiality on oversight was critical. The Bureau found that effort lacking.
6. The Bureau is extremely concerned that total flexibility on the contract places public safety at risk. Large amounts of sand accumulated on the roadway as well clogged drainage structures places the monitoring public at risk. Obstruction of safety signs raise even more concerns. These public safety concerns demand immediate attention.

7. The building in of a state of mind that results in deferral of maintenance items is subjecting the Commonwealth to substantial financial burdens down the road. Not only are public safety and liability major concerns, but the fiscal well being of the Commonwealth is at issue.

This trend toward deferred maintenance has immediate cost control measures taking precedence over public safety and long term financial stability. Either the maintenance operations itemized in the contract are necessary and essential and should be performed every year, or they should be reevaluated and eliminated where appropriate. It does not make any sense at all to allow the contractor to pick and choose what maintenance functions it wants to fulfill, in disregard of safety and cost savings.

The Bureau also began examining claims that conscious decisions were being made not to repair equipment and that certain work crews in other districts were purposely being kept idle. The purported reason for these actions was that it would make the case for wide spread privatization much easier to attain.

The Bureau has had difficulty obtaining legitimate activity sheets and work records, it was forced to rely on actual inspections to see if the work was actually being performed. The

Bureau conducted several on-site inspections to examine debris removal, catch basin cleaning, signage, sweeping and bridge repair.

The inspections revealed little evidence that any work areas were marked for identification. The numerous catch basins that were examined were partially or completely filled. The only conclusion that could be drawn was that many were never cleaned or cleaned before the end of the winter storm season. The Bureau does not comprehend the reason for the delay in the sweeping contract. Accumulated sand on the roadway can create hazards to public safety. Highway maintenance experts in some cases compare the road hazards of sand as being very similar to ice. The Bureau fails to understand the scheduling rationale that has the catch basins being cleaned before the sweeping is completed. Sweeping will inevitably push sand back into the catch basins.

Based upon the results of on-site inspections of the district in February, April and May, the Bureau became concerned that maintenance activities were not being conducted on a regular continuous basis. Rather than repair dangerous situations or fix damaged sign locations on an ongoing basis, the contractor had incentive to address problems on an aggregate, concentrated basis. While from the contractors point of view this represented rational, cost effective way to proceed, from a public safety and liability point of view it is a disaster waiting to happen for the Commonwealth.

Anecdotal evidence and site observations by Bureau employees confirmed that unmarked vehicles were apparently performing some work on the roads under this contract. It was not clear if these vehicles belonged to the contractor or the subcontractor. The Bureau encountered few vehicles bearing "Middlesex" identification on the privatized roads during its site visits.

#### BUREAU RECOMMENDATIONS

A. The Bureau recommends that the Sub-Committee on privatization hold public hearings on this project to address the concerns raised by this report. The Bureau also recommends that the Sub-Committee specifically inquire into claims that maintenance of equipment, roads and bridges are being deferred in other districts pending additional privatization efforts.

B. The Bureau recommends that MHD provide a factually based cost benefit analysis of the Essex County privatization of the maintenance function for submission to the Committee and that MHD be required to document fully each and every cost and benefit that resulted from the administration of this contract. The Bureau also recommends that MHD provide a written report of all actions to delay, defer and/or abandon maintenance on equipment and/or structures both within and without Essex County.

C. The Bureau recommends that the pace of privatization within the MHD be slowed to allow for the thoughtful examination of the

issues contained in this report. If the problem areas identified in the Essex County privatization effort are not addressed, it could result in unsafe roadways across Massachusetts, and millions in misspent tax dollars. The Bureau recommends that the Committee support legislative efforts to mandate strong oversight measures to implement a workable cost/benefit analysis of all privatization proposals. The Bureau recommends mandating legislative approval of all privatization proposals, based upon this analysis, prior to implementation by the Administration.

D. Finally, the Bureau found it disturbing that the contractor had the ability to establish priorities instead of the MHD. The MHD should have prioritized maintenance functions and dictated which items were to be completed on a tightly scheduled basis. It simply is not in the Commonwealth's interest to allow a profit motivated contractor to be the principal decision maker as to what maintenance functions are to be addressed and when they are to be addressed.

ATTACHMENT A



THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE DEPARTMENT  
STATE HOUSE • BOSTON 02133

WILLIAM F. WELD  
GOVERNOR

GEO PAUL CELLUCCI  
LIEUTENANT GOVERNOR

March 1, 1993

Dear Massachusetts State Legislator:

I am forwarding an overview of our privatization initiatives.

By injecting competition into the governmental process, improved services are being provided in a more efficient manner while freeing up valuable resources for expanded services in many areas. Privatization has been beneficial to both those receiving services from the Commonwealth and to the taxpayers.

I look forward to working closely with you in my new role as Secretary of Administration and Finance.

Sincerely,

A handwritten signature in cursive script that reads "Mark E. Robinson".

Mark E. Robinson

/ml

Attachment

# WELD ADMINISTRATION PRIVATIZATION INITIATIVES

## EXECUTIVE OFFICE OF ADMINISTRATION AND FINANCE

### *Programs that have been Implemented*

1. **CAPITAL PLANNING AND OPERATIONS** - Effective on September 1992, the State Transportation Building will be managed by the private firm of R.M. Bradley at an estimated annual savings to the Commonwealth of \$1 million.
2. **PROCUREMENT AND GENERAL SERVICES** - In FY '91 Micrographics Management Services (MMS) was required to cover all of its production costs through retained funds. After factoring in agency projections of anticipated production requirements, expected agency funding levels, the reality of free records storage at the adjacent State Records Center, and based on FY '93 anticipated revenues of approximately \$200,000 versus \$324,000 of projected expenditures, the services could not be guaranteed to be self-sustaining. Based upon this analysis, the decision was made to bid out the film production services to the private sector, while maintaining oversight and some control by monitoring certain terms within the agency. The new contract went into effect on July 31, 1992. The contract was awarded to the lowest responsive and responsible bidder at a cost savings of 34% to the Commonwealth. Negotiations with the union, regarding the closing of the in-house program were successful, and six of the eight former employees are gainfully employed.
3. **PROCUREMENT AND GENERAL SERVICES** - On July 1, 1992 DPGS established a contract for the coordination of procurement and delivery of pharmaceuticals for state agencies, cities, towns, and human service providers with a single private Massachusetts provider. Prior to implementing this contract, the Commonwealth managed 200 contracts with 60 vendors. The estimated first year savings from the change to this system is \$3 million resulting from a 40% reduction in inventory, a 70% decrease in the number of purchase orders which must be placed, better prices from the Pharmaceutical manufacturers, and the fact that they no longer need to order non-contract items directly from the manufacturer at retail prices.
4. **PROCUREMENT AND GENERAL SERVICES** - On October 14, 1992, the Commonwealth implemented a policy requiring in-house print shops, Correctional Industries and Central Reprographics, and private sector shops to compete on an equal basis for Commonwealth printing services. Prior to this change in policy, a Print Review Board assigned all jobs it deemed appropriate to the in-house printers. DPGS believes that competition will result in reduced costs to purchasing agencies.
5. **DEPARTMENT OF REVENUE** - Effective September 1992, Lockheed, Inc. was selected to process the \$1.6 million in child support payments that the Child Support Enforcement Division (CSE) receives each year. Lockheed will also handle all lock box functions for DOR/CSE. The primary benefits are in efficiency, not dollars. This is attributed to the use of more advanced technology by Lockheed. The provider has also assisted in "cleaning up" account information.

## EXECUTIVE OFFICE OF ADMINISTRATION AND FINANCE

### *Programs that have been Implemented*

6. **Office of the Comptroller:** The Comptroller's office has completed four privatization initiatives. These initiatives were in the areas of debt collection for overdue non tax revenue, state audit, technology system development, and the sponsoring of revenue maximization projects. These initiatives have been used by the Comptroller's office for the past few years.

7. The DEPARTMENT OF REVENUE'S Child Support Enforcement Division completed negotiations with the two vendors selected to collect past due child support payments in December 1992. Of the \$51 million in past due child support referred to the vendors, DOR/CSE estimates that about \$1 million will be collected. The private collection firms will be paid a percentage of the money they collect and all costs will be passed on to the non-custodial parent.

Budget line item 1201-0160 authorizes the Department of Revenue to enter contracts with private collection agencies for the purpose of obtaining collections from absent parents. The Department must also file a performance report with the House and Senate Committees on Ways and Means on or before November 15, 1992. The report must include full details of the proposed program.

# EXECUTIVE OFFICE OF COMMUNITIES AND DEVELOPMENT

## *Programs that have been Implemented*

1. **HOME ADVANTAGE** - is a new affordable housing initiative created by a public/private partnership to turn existing housing stock into decent, affordable homes for low and moderate income first-time home buyers. Participants active in the partnership are: EOCD, Fannie Mae, MHFA, Citizens' Housing and Planning Association; local non-profit housing agencies; Massachusetts banks and mortgage companies; and, real estate professionals. Compensation for services is performance based. The breakdown of the performance based compensation:  
CHAPA..... 2%  
Real Estate Broker..... 2%  
Home Council Agencies...3% with a 1% incentive  
for good standing

Income-eligible first time home buyers can purchase Fannie Mae properties at a discounted price, which will also include the cost of rehabilitation. MHFA financing is available through participant lenders. These loans are provided at below-market rates and require only a 5% down payment. In addition, Fannie Mae offers secondary financing (up to \$6,000 at 0% interest for a 7 year term) to qualified buyers to help defray closing costs.

The program was implemented in November 1992. Fannie Mae will review the CHAPA program every six months.

2. **FINANCING AFFORDABLE HOUSING** - The "One-Stop" application has been developed by Massachusetts affordable housing lenders to provide project sponsors with one single application that could be submitted for various sources of funding. The goal is to greatly simplify the process of assembling the financial resources necessary to complete an affordable housing project. Sponsors may submit the application to different organization at different points in time. The proposal may evolve and change as it is reviewed by various lenders and funding agencies. To further facilitate the process, the application has been automated. The computerized version is designed to allow the project sponsor to modify only those elements of the application which have changed, without redoing the entire application.

Although the "One-Stop" application was just recently introduced, it has been favorably received by the development community. It is hoped that the new automation will greatly reduce time and effort required on the part of project sponsors to obtain financing for the development of affordable housing, thereby reducing costs. Computerization of the application allows for easy manipulation of the data and greatly facilitates in-house processing, reducing cost to the funding agencies.

## EXECUTIVE OFFICE OF CONSUMER AFFAIRS

### *Programs that have been implemented*

1. DEPARTMENT OF CONSUMER AFFAIRS has successfully privatized the "Lemon Law" program which allows a consumer who has been sold a defective automobile to bypass court action by attempting to resolve the dispute through arbitration. Before the Lemon Law was privatized, the state was spending a quarter of a million dollars each year administering and subsidizing the program.

Now, consumers pay an up-front filing fee to have their disputes arbitrated by AMERICAN ARBITRATION ASSOCIATION who runs the program under contract from the state. If the car meets all the qualification for acceptance into the program, a hearing is set up and a decision is rendered based on the facts presented by the two parties. By law, the whole process must be completed within 45 days and if the consumer wins, the application fee is refunded as part of the award settlement.

By privatizing these programs we have reduced the State's cost completely. Each case is handled expeditiously and efficiently. Compliance by manufacturers and dealers alike is as high as it has ever been. In fact, some manufacturers have openly admitted to changing their policies for dealing with customers with defective autos because of the Lemon Law. It is a program that works for the consumer.

## EXECUTIVE OFFICE OF EDUCATION

### *Programs that have been implemented*

1. Community Colleges are obtaining direct loans from HEFA. This encourages campuses to go forward with capital outlay needs without using state funds.
2. Auxillary Enterprises: Presently, 90% of state-run campuses have privatized their cafeterias, bookstores, maintenance, security. Many are using students for food service training.
3. Tufts Veterinary Program: contracted for state school students
4. Apptitude Placement Test/Monitors: contracted with Advanced Systems, evaluated at the DOE.

## EXECUTIVE OFFICE OF ELDER AFFAIRS

### *Programs that have been implemented*

1. **EXECUTIVE OFFICE OF ELDER AFFAIRS** - is authorized by budget line item 9110-1633 to enter contracts with home care corporations or other qualified bidders for the administration of the home care program; provided, that said contracts shall include the costs of administrative personnel, home care case managers, travel, rent and other costs deemed appropriate by the executive officer. The amount appropriated for this is \$30,977,000.

Performance-based contracting was implemented to allow the Commonwealth to compensate Home Care contracts at a negotiated "unit rate" for services delivered rather than on a "cost reimbursement" basis. The primary advantages of a performance-based system are its focus on program outcomes as a measure of "success", an incentive system for contractor performance beyond contracted goals, and a streamlined payment processing system.

Massachusetts spends approximately \$125 million dollars each year for Home Care programs and services to elder citizens. The programs are administered through the Commonwealth's Executive Office of Elder Affairs (EOEA) and its network of 27 private, non-profit Home Care Corporations. Based on the relative success of performance-based contracting at EOHHS, the Secretary of Elder Affairs, began a review of its elder service programs in the summer of 1991 to determine whether performance-based contracting could increase the efficiency of the Home Care System. Over the next six months, Elder Affairs worked closely with an advisory group of Home Care managers and program staff to design and develop the infrastructure for a performance-based contracting system. The task was enormous, with the two most time-consuming and sometimes volatile issues being created of a single, statewide compensation rate and defining measurable performance standards.

Performance-based contracting allows Elder Affairs to measure the performance of the Home Care program by monitoring each of its 27 Home Care providers against a set of standardized program outcomes based on pre-defined goals and documented in individual provider service plans. Compensation to the Home Care Corporations is tied to their ability to achieve their planned outcome levels.

Elder Affairs was particularly attracted to three potential advantages of performance-based contracting:

- Money is spent only for services received.
- Staff time, technical assistance, and provider management focus on quality of service.
- Contractor has the opportunity to receive incentives and bonuses for performance beyond minimum goals.

## EXECUTIVE OFFICE OF ELDER AFFAIRS

Elder Affairs has just begun its first full year of performance-based contracting, and it is still too soon to identify significant changes in the administration of Home Care programs. At this moment however, EOEa can report the following:

1. Home care programs now have greater flexibility in determining the types and levels of service to provide for their clients.
2. Elder Affairs has just been allocated \$1.2 million to refine and expand its Management Information System to link Home Care Agencies into Elder Affairs automated client tracking and billing systems. The MIS project will ensure greater accuracy and timeliness of Home Care performance and cost data.
3. Elder Affairs has helped the Home Care network develop a standardized procurement process for direct service subcontractors, that in effect requires a subcontractor to identify a flat rate for service and allows for competition from smaller and/or newer subcontractors interested in doing business with Home Care Agencies.

## EXECUTIVE OFFICE OF ENVIRONMENTAL AFFAIRS

### *Programs that have been implemented*

1. **Commonwealth Zoos:** The privatization of the Commonwealth Zoos was initiated by legislation filed to establish a non-profit entity to operate and manage the zoos. Chapter 6 of the Acts and Resolves of 1991 created the Commonwealth Zoological Corporation (CZC). Chapter 6 was signed by Governor Weld on March 22, 1991.

A number of groups became involved in the effort to privatize including Friends of the Stone Zoo, Franklin Park Zoo Advisory Committee, Administration and Finance, Budget Bureau, Environmental Affairs, the MDC, and numerous elected officials.

Although driven by the fiscal crisis, privatization was seen as better enabling both zoos and to become self-sufficient and eventually eliminating all state funds from the operation and management of the zoos. In fact, the Commonwealth realized a net savings of approximately \$300,000.

2. The DEPARTMENT OF ENVIRONMENTAL MANAGEMENT awarded a contract on February 1, 1992 to the Minute Man Flames Minor Hockey Association, Central Massachusetts Arenas for the private management of four DEM rinks: Worcester, Marlboro, Auburn, and Gardner. Ramifications of privatization have been positive, the rinks are now open year round with longer hours. Under the terms of the contract, the state will receive \$35,000 per year. The contract expires on April 30, 1995.

3. METROPOLITAN DISTRICT COMMISSION privatization efforts completed in 1992 will be as follows:

1. Nike Missile Site: Green Meadows Petting Farm (\$50,000 worth of site clean up).
2. Franklin Field Pool: Transferred to the City of Boston.
3. Pro Shop at Ponkapoag Golf Course
4. Cross Country Skiing at Martin Golf Course
5. Permits: MDC has issued 13 permanent food and beverage concessions permits
6. Community Boating
7. Mass Eye and Ear Parking Lot (\$10,000 per month)
8. Logging at Quabbin
9. Beautification: commercialization of MDC flower beds.
10. Blue Hills Ski Area: MDC has awarded a 25 year management lease to Recreational Sports Inc.

### DEPARTMENT OF ENVIRONMENTAL PROTECTION

#### **Provisions of House Bill 5891 that impact DEP**

1. Establish a program for the licensing of consultants to act as "site professionals" who monitor assessment and/or cleanup work being performed on behalf of private sector responsible parties.
2. Authorize DEP to establish a two-tiered notification system delineating those many sites where private parties could proceed without the agency's prior approval and those fewer sites where responsible parties would need to acquire DEP permits before performing work.
3. Guarantee timely action by the agency on permit applications, require DEP to refund application fees when deadlines are not met and to assign a high priority to the review of those applications on which timelines have been missed.
4. Provide incentives for private sector responsible parties to undertake assessment and cleanup work on their own, as well as expanded enforcement authority for DEP to require private sector action.
5. Authorize DEP to audit private sector assessment and cleanups to ensure that public health and environment are being adequately protected.
6. Clarify the liability of secured lenders and fiduciary trusts for the assessment and cleanup of contaminated properties, to protect their interests.

# EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES

## *Programs that have been implemented*

1. The Commonwealth's inpatient facilities system, which was built to accommodate over 35,000 individuals at its peak, today cares for 6,200 clients. Encompassing some 10,500 acres with over 1,000 buildings spread over 34 campuses, the inpatient system is grossly oversized for the number of people in its care. Moreover, of those 6,200 individuals receiving care in these institutions, at least 2,200 could be better cared for in community-based settings.

The Department of Health and Human Services is in the process of closing and consolidating nine state institutions currently providing services under the auspices of the **DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION, and PUBLIC HEALTH**. Provisions are being made to assure appropriate quality care services for displaced individuals. Over 2,000 new community-based residential placements and community support programs are in the process of being developed. More than 300 beds for individuals requiring inpatient care will be transferred from state institutions to general hospitals. More than 500 beds for individuals requiring nursing care will be transferred from state institutions to nursing homes.

Inpatient acute care will be provided in the client's own community in the normal setting for medical treatment, eliminating a two-tiered system of private and public mental health care. The traditional burden of 100% state cost for public patients will be alleviated by the contracting with private and general hospitals. This will permit cost sharing with the federal government for Medicaid-reimbursable patients. Federal reimbursements are unobtainable to state hospitals under HFCA regulations.

The transferred patients will benefit from the access to needed medical care and diagnostic medical technology at private and general hospitals that are not available at state institutions.

The Department of Mental Health Facility Consolidation has improved the quality and level of care for clients formerly served by the Department of Mental Health at Metropolitan State Hospital, Danvers State Hospital and Northampton State Hospital. The Department has also reduced the costs of serving these patients by close to \$20 million annually, and deflected another \$20 million in projected capital spending.

Benefits include 519 new community beds to serve DMH's patient population, all of which were brought on line in FY 1992. This is the single largest one-year production of new community housing in the history of the department. In fact, DMH exceeded the Department's previous one-year high by a factor of more than two.

Another benefit is a massive shift in funds from the DMH hospital account to the community account. The hospital account dropped by 22 percent, and the community account increased by 28 percent - again, the largest one year shift in the history of the Department.

\$2 million to develop housing for the homeless mentally ill in Boston.

Consolidation has also brought a shift in service away from the DMH hospital system, which is, for the most part, unaccredited and uncertified and into community hospital programs that are accredited and certified. This enhances the quality and increases federal reimbursement.

A brand-new, state-of-the-art long-term inpatient facility and rehabilitation center on the Tewksbury Hospital campus for long-term DMH patients. This move improves patient care and generates over \$8 million in new federal revenue.

## EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES

### *Programs that have been implemented*

To date, DMH has signed a contract with Holyoke Hospital to manage a 45 bed transitional acute psychiatric unit at Charles River West Hospital and with Cambridge City Hospital to operate a 17 bed acute inpatient unit.

The Department of Public Health Facility Consolidation has increased or maintained levels of care for long-term care patients formerly served at Rutland State Hospital, Cushing State Hospital, and Lakeville State Hospital by using private nursing homes and specialty care facilities.

Consolidation has also reduced the costs of serving these patients by over \$20 million on an annual operating basis, while deflecting almost \$100 million in projected capital expenditures.

Benefits include a \$20 million increase in state funding for community health and prevention programs in the FY 1993 DPH budget. This means 18,000 more adolescents can be reached with AIDS education programs, 500 more HIV-infected women will be served, and 13,000 more women, infants and children can participate in WIC.

Other benefits include a massive shift in spending away from the hospital accounts and to the DPH community services accounts. In FY 1991 40 percent of DPH spending was in its community accounts. In FY 1993 63 percent of its budget is spent in its community accounts.

There have also been increases in family planning services and rape prevention services, as well as \$3 million for breast cancer research and education, and free mammography's for the uninsured.

Once fully implemented, the net savings to the state from hospital consolidation is anticipated to be approximately \$60 million annually.

2. Since the late 1970's many of the private, non-profit mental health hospitals were doing business with the DEPARTMENT OF MENTAL HEALTH. The DMH carried 829 state workers performing clinical and administrative services for these clinics. These workers were paid by the state and worked for the clinics, hence, the term "partnership".

The Weld Administration, concerned primarily about paying for workers who "worked" for private vendors, eliminated this practice by laying off all partnership clinic employees in the spring of 1991. The Commonwealth then increased the affected vendors' contracts by 80%, or in the case of residential services by 90%, of the value of the laid off workers' wages. With this funding, vendors were able to hire staff to maintain services. This privatization initiative saved the Commonwealth over \$6 million in fringe benefits costs, and rationalized the private vendor system.

The savings associated with this initiative is as follows:

DMH Savings	\$5,202,511
State Fringe @ 25%	\$1,300,627
<b>Total Savings</b>	<b>\$6,503,138</b>

## EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES

### *Programs that have been implemented*

Approximately \$5.2 million in savings was redirected to support direct care mental health services for clients. Only 2% of the laid-off state partnership employees are receiving unemployment benefits. 371, or 45% opted to accept employment with their assigned vendor. 222, or 27% opted to exercise their bumping rights and are still working for DMH. 48, or 6% employees retired. This leaves 169, or 20%, who are apparently employed elsewhere.

The vendors reported that there was a temporary negative impact on the services as a result of this restructuring, but currently they report that the situation has stabilized, and in the long-term, they believe this activity will be beneficial to the clinics and clients.

**3. LAUNDRY** - The DMH currently operates the Consolidation Laundries, a state operated service for 28 institutions operated by the Departments of Mental Retardation, Mental Health, and Public Health. The service is provided in laundry facilities located at the Dever and Hogan State Schools. The annual volume of soiled laundry is approximately 10 million pounds of bed sheets, pillow cases, johnnies, towels, blankets, diapers, face cloths, and some body clothing. The total current year operating budget is \$3.0 M. Laundry services have been bid to compare the costs of a private versus public laundry service. There were five bids for four regions. DPGS favors a break-up into regional servers. The state operated service is budgeted for 31 cents per pound of laundry. The market rate averages about 26 cents per pound. At these rates, annual saving would be significant and would increase over time due to the planned closures of facilities and other reductions in inpatient census. The Department of Mental Health's preliminary findings have been very favorable concerning this initiative. The decision to privatize is expected in December of 1992.

During the twelve month preparation to the bid stage EOHHS has noticed a drastic reduction in operating costs, labor, without any reductions in production or quality. It seems that even the threat of competition has a positive impact on state productivity.

**4. MEDICAID PROGRAM** - The Medicaid Program administered by the DEPARTMENT OF PUBLIC WELFARE (DPW) provides health care to the financially needy. The Medicaid program by law is the payer of last resort. The DPW operated a unit which identified and collected Medicaid funds from third party payers as a result of casualty, accident or other trauma-related situations. It was decided to privatize this operation to promote the built-in incentive that this type of work creates. The DPW utilizes a contingency contract which is virtually risk-free to the Commonwealth. The contractor is paid a percentage of the dollars recovered.

As a result of privatization, DPW has an increase of \$3.0 million dollars in yearly collections and increased the per case settlement by \$2,500. In addition, the caseload has increased by 25% and identification of potential TPL resources increased by over 100%. The flexibility of a contractors resources has given DPW the opportunity to attend all of the industrial accident board hearings, whereas, the Department rarely attend the hearings. The overall collection process was streamlined for a more effective and efficient business procedure.

**5. FACILITY HOUSEKEEPING SERVICES** - The quality of housekeeping services provided by state employees at the Fernald State School has been subject to repeated and long-standing criticism from several directions. In 1988, a portion of the housekeeping service was contracted out to the Marriot Corp. through a competitive bid process. When the disparity between the buildings cleaned privately and those cleaned by state employees became obvious, the Commissioner of the DEPARTMENT OF

## EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES

### *Programs that have been implemented*

MENTAL RETARDATION (DMR) presented a proposal to the Governor to privatize these services at the Fernald. The decision was made to privatize the entire operation. The goal was to both increase quality and achieve additional reductions in cost.

This initiative, in conjunction with a similar one to privatize dietary and food services at the same facility will save over \$800,000 annually. The housekeeping service was privatized in September 1992.

# EXECUTIVE OFFICE OF PUBLIC SAFETY

## *Programs that have been implemented*

1. The DEPARTMENT OF CORRECTION awarded a \$28.7 million contract to E.M.S.A. of Fort Lauderdale, Florida for system-wide medical and mental health services for the state's 9,600 inmates. This privatization effort is expected to save the Commonwealth approximately \$8 million annually. Combined with a reorganization of the DOC Health Services Administration, this venture will result in increased quality through a more effective delivery system.

Under the new contract with E.M.S.A., a cost-containment system has been implemented that in many cases brings better care to the inmates within the institution. The average length of stay in a hospital for an inmate under the old system was more than 11 days, which DOC has now reduced to four days. When you consider that each hospital stay costs us about \$1,000 a day, not to mention additional costs for the corrections officers guarding the inmates, DOC has already realized significant savings

Moreover, the Department has a clause in the contract requiring the private health-provider to gain national accreditation at each of the 21 institutions within two years, or pay a \$100,000 fine for each unaccredited institution. Both the Commonwealth and E.M.S.A. expect that all 21 facilities will be accredited by the National Commission on Correctional Health Care (NCCHC), by the end of 1993. Therefore DOC has cut costs while also providing the means and the incentive for better care.

The DEPARTMENT OF CORRECTION is in the ninth month of implementation of the system-wide mental and health care contract with E.M.S.A.. Significant improvement in the delivery of health care services has been noted, conversely, a recent report issued by a special commission found some deficiencies in care including the denial of medical care as punishment and the unavailability of infirmary-level health care on prison grounds. This report led to the creation of a House Panel to inspect the facility. Secretary of Public Safety Rapone claimed the report was based on out-dated information and he invited all members of the panel to inspect the facility at Framingham.

2. **FOOD SERVICES** - The Department of Correction has awarded a contract to provide food services to inmates at four institutions MCI-Framingham, South Middlesex Correctional Center, Pondville Correctional Center and Boston Pre-Release. The transition began on July 1, 1992, and was fully implemented on August 1, 1992. It is estimated that savings from this initial award will be about \$600,000 annually.

The award was made to **WACKENHUT SUPPORT SERVICES**. The Wackenhut Corporation regional office is located in Quincy. They currently operate food services in eleven other federal, state and county correctional facilities within the United States .

The quality of meals will increase under the new contract.

If the Department of Correction privatizes the whole system during the next year, it is conservatively estimated that \$4 to \$5 million could be saved annually.

There will be no layoffs under the new contract as the current services are provided by a combination of inmates and correction officers. The new service will utilize inmate labor and private personnel. The corrections officers will revert back to security.

## EXECUTIVE OFFICE OF PUBLIC SAFETY

### *Programs that have been implemented*

A recent DOC memorandum reported that the quality of food services has improved since the implementation of the program. The department is conducting an independent review using an outside consultant. The verbal response was favorable, a written response is expected sometime in October, 1993. The remaining institutions will be assessed during the first quarter of 1993 to determine if privatization should proceed.

3. The **REGISTRY OF MOTOR VEHICLES**, in cooperation with DOR, MHD, DPU, and ABCC will consolidate the registration, tax collection, fuel tax certificate issuance, permit engineering, permit and approvals process required by motor carriers to operate their trucking business in Massachusetts. Instead of multiple stops that commercial motor vehicles previously made for full approval (5 in all), a one-stop shopping center opened on May 6, 1992 in the City of Marlboro. In addition, the One-Stop Shopping Center will be the site for the Commercial Motor Vehicle International Registration Plan that Massachusetts will join in 1993.

The Motor Trucking Industry supports the One-Stop Shopping Center concept at Marlboro as well as the International Registration Program.

4. Eight major car leasing agencies have formed a non-profit corporation called the Massachusetts Fleet Processing Center Association. This corporation's sole purpose is to register rental cars in Massachusetts, a task previously done by the **REGISTRY of MOTOR VEHICLES**, primarily at its Nashua Street office. The following advantages can be realized by the state: a modest increase in revenues from the 5% sales tax for each car rental, an improvement in customer service due to the reduction of the registration caseload by 150,000 transactions out of the Nashua Street office, and from the standpoint that Governor Weld can use this as an example of his administration's commitment to work with business, not obstruct it. Also important to note, Registrar Gnazzo confirmed that Massachusetts is the first state in the nation to take this approach to registering rental fleets.

# EXECUTIVE OFFICE OF TRANSPORTATION & CONSTRUCTION

## *Programs that have been implemented*

1. **MHD DISTRICT 5 OFFICE** - The single largest privatization effort attempted by the Department of MHD's plan to privatize the entire maintenance functions of a district office. This privatization plan would turnover to a private contractor all highway and traffic maintenance functions, as well as the responsibility for the operation of district's 9 drawbridges. This plan calls for \$1.9 million in additional services to be performed by the contractor, over and above the level of service currently in existence.

The plan eliminates 90 maintenance positions saving \$2.25 million, while reducing overtime costs by \$200,000. It also eliminates existing contracted work, saving \$600,000, and saves the MHD \$1.3 in equipment costs. Finally the privatization of drawbridges saves \$800,000, for a total savings, when combined with the additional level of service achieved by privatization, of just over \$7 million. Since the privatization contract is estimated to cost \$4.5 million, the Department is saving \$2.5 million by privatizing a district office.

MHD has achieved this privatization without a single state worker losing a job. The maintenance workers from the privatized district are to be transferred to other districts to fill vacancies created by attrition or retirements. In addition, the Commissioner has provided the workers with an opportunity to present a proposal detailing how they can compete with an opportunity to present a proposal detailing how they can compete with the private contractor. Whether it is through privatization or through the proposal presented by the worker, the Commissioner will have achieved his goal of providing greater services for less cost.

On July 2, 1992, the relevant unions submitted a proposal to the RFP. A cost analysis of the proposal found several discrepancies in the proposal, including a \$700,000 mathematical error and failure to including estimated overtime costs.

The \$3.7 million contract was finally awarded to Middlesex Corp. and Hi-Way Paving on September 9, 1992.