

II. Why Consultants Consistently Cost More than Regular Employees

- *More than 80% of cost comparison studies have found that it costs more to have consultant engineers do the design work on state transportation projects than to use career public employees. While some studies show the costs are about the same, no studies contend that state engineers cost more.*
- *That's because salaries are higher at private firms, private firms make profits of from 10% to 15%, and state transportation departments still need to spend time and money selecting and supervising the consultants.*
- *Another important reason why consultants are so costly: Most of their contracts are awarded without competitive bidding!*
- *On top of that, many engineering firms' contracts are cost-plus – so the taxpayers have to pick up the tab for all the costs that they claim!*

Private engineering consultants cost more than their public sector counterparts.

That is the clear conclusion of decades of studies by state agencies, academic researchers, and the news media. In fact, it goes back to the days of Moses – the legendary Robert Moses, who spearheaded such projects as the Triborough Bridge in New York City during the 1930's. At that time, a study presented at a City Council hearing showed that, when civil service employees designed major public works, engineering amounted to 3.2% of the projects' total costs, but when private consultants did the design work, their costs amounted to 7.5% of the total.^{xxiv}

More recently, of at least 17 studies performed during the past two decades comparing the costs of conducting pre-construction engineering design by in-house staff or private consultants, more than 80% of these reports have found that regular public employees are less expensive than private contractors, with the difference in costs ranging from 30% to 100%.^{xxv} Of the remaining studies, all but one found no significant difference in costs – there is no body of research claiming to find that private contractors are less expensive than regular employees.

The reasons why consultants are more expensive include:

- **No Competitive Bidding:** Most state departments of transportation award contracts for engineering, design, and related professional services without competitive bidding. In theory, the determination is made on the basis of factors such as the consultants' experience. The absence of cost comparisons during the selection process removes one potential way of controlling costs once the work is underway.

- **Cost-plus Contracts:** In addition, many consultant contracts are “cost-plus,” providing that the engineering firms will be reimbursed for all the expenses that they claim. This lends itself to abuse and overcharges, just as “cost-plus” contracts did in defense spending in the decades past.
- **Higher Salaries:** Most studies have found that private firms pay higher salaries than state departments for comparable positions. Thus, the California Legislative Analyst found that, in 1994, engineers at the state department of transportation cost \$75,000 per person per year, compared to \$124,000 for their counterparts at consulting firms.^{xxvi} By 2001, the gap had grown to \$84,126 for state engineers and \$138,095 for consultant engineers. Similarly, in 1998, the New York State Comptroller found that engineers at private contractors can be as much as \$20,000 or more a year more costly than state engineers.^{xxvii}
- **Profit and Overhead:** In Texas, the *Houston Chronicle* reported that private engineering firms earn profits of from 10-15% on their contracts with the state department of transportation. In a similar finding, the California Legislative Analyst found that overhead amounts to 203% of consultants’ total salaries.^{xxviii}
- **Consultant Management:** Specifications must be set for the work that is to be contracted-out. Proposals must be solicited, compared, evaluated, and decided upon. Consultants must also be selected, contracts must be prepared, and the project must still be supervised. All this work is involved in contracting-out projects – and it consumes regular employees’ time and the taxpayers’ money.

A study by researchers at the Eagleton Institute of Politics at Rutgers University, explained why excessive costs result from the procedures under which engineering work is contracted out in New Jersey and many other states. Because so many contracts are awarded without competitive bids, the study observes: “The procurement process ... cannot identify the lowest, responsible bidder.”^{xxix} This inherent lack of cost controls refutes the leading argument for contracting-out:

“The appeal of privatization is rooted in the promise of cost savings. Those cost savings can be realized only if the procurement process that the public sector uses identifies the lowest cost contractor who can satisfactorily or responsibly perform this work. To the extent that the procurement practice fails to accomplish this end, the cost advantage that privatization promises is exaggerated.”^{xxx}

Major statewide studies offer extensive evidence that private consultants are more expensive than regular employees and are being used excessively and often unnecessarily by state departments of transportation:

New York State

In spite of several reports that found that using state engineers is less expensive, New York State's department of transportation continues to use consulting firms for 20% of its projects amounting to 50% of its total construction budget.

For instance, a study of the department by the accounting firm KPMG reported that consultants were more expensive than state engineers in 85% of the projects that were examined. This study further concluded that, if the department had cut its use of consultants in half between 1991 and 1999, it could have saved \$274 million. That money could have been used to build, maintain, and repair highways and bridges.

In response to such studies, the department agreed to hire more staff rather than rely more heavily on consultants. But further investigations found that the department had continued to contract-out increasing amounts of work.

In response to this situation, 1998, the State Comptroller's Office released a report with these conclusions:

- "We found that the Department has not justified its decision to contract-out more of its capital projects to consultant engineers, rather than hire additional Department staff, as it had agreed to do in 1990."
- "Further, the Department has not demonstrated that its use of consultant engineers has provided services in a cost-effective manner."

Far from requiring specialized experience and expertise that could only be obtained from outside sources, the Comptroller's Report found: "The Department is using consultants to carry out many projects which Department officials acknowledge are routine in nature." For instance, in Fiscal Year 1995-96, of 55 contracts totaling \$54.2 million awarded to consultants for construction inspection projects, only one was awarded "because of the need for special expertise."

New York State Comptroller: State Transportation Department "has not demonstrated that its use of consultant engineers has provided services in a cost-effective manner." Ten of 18 contract-out projects could have been completed by state engineers. Consultant engineers' salaries up to \$20,000 higher than state engineers'.

Similarly, during the same period, the department's consultant management bureau awarded 18 design contracts, totaling \$30.3 million. But the Comptroller's report found that department officials themselves acknowledged that 10 of the 18 projects were routine in nature and could have been completed by state engineers. Of the remaining eight projects, only certain aspects of these jobs required specialized skills.

Turning to the issue of comparative costs, the Comptroller's report noted that, in its own 1993-94 budget request, the department "indicated that it is more costly to have designs done by consultants" and expressed the long-range goal of doing more jobs in-house.

Higher salaries for consultant engineers were one reason why contracting-out was more expensive. While entry-level salaries were about the same, the top of the salary structure was much higher in private companies than in state departments. Thus, consultant engineer salaries were from \$1,500 to \$20,000 higher than salaries for state engineers.^{xxx1}

Profits – or "fixed fees" – for consultant contracts also pushed their costs up, the Comptroller found. The study found these ranging from 8.4% to 15% of the total costs.

In yet another indication that private consultants are more expensive, the Comptroller noted that the department had conducted its own comparison of inspection costs in two regions, Syracuse and Watertown. Having found that state employees were less expensive, these two regions are now using in-house employees to inspect all local bridges.

Texas

In Texas, a study by Price Waterhouse Coopers examined almost 6,000 design jobs conducted by state engineers or private consultants. This study made allowances for the size and complexity of the jobs, whether they were urban or rural, and other factors that might affect the comparison of costs.

All in all, the study found that contracting-out was 62% more expensive for 8 of 13 different kinds of design work for the department of transportation. In the remaining five categories, cost differences could not be determined. And the study found no difference in quality between designs produced by consultants and state employees.^{xxxii}

California

In 2001, the California Legislative Analysts Office reported: "By Caltrans' [California Department of Transportation] own description, it would cost the department \$2,119,000 to use staff to do bridge scour evaluation," compared to the \$4.3 million necessary "for local agencies to contract-out the work directly."

Among the factors contributing to the difference in costs between the public and private sectors were:

- Consultant engineer salaries averaging \$138,095 a year, compared to state engineer salaries of \$84,126;

- The additional administrative overhead and oversight that consultants require would contribute to contracting-out being twice as expensive as having state employees do the work.

Louisiana

Echoing the finds of similar studies in other states, a report by the Louisiana Department of Transportation found that the average cost of in-house design was 77% of what consultants charge.

While determining that consultants are considerably more costly, it found no significant difference in the skills of in-house and outside engineers and the quality of the work they did. It also highlighted the costs incurred by the state in preparing and overseeing the consultants' contracts.

Wisconsin

In one more evaluation of the costs of contracting-out, the administrator of Wisconsin's Division of Transportation Districts, Lynn R. Judd, provided a comparison of engineering costs per mile for consultants and in-house staff. In a memo to State Senator Joanne B. Huelsman, she reported that state employees' design costs amounted to 14.1% of total project costs, compared to 16.4% for consultants.^{xxxiii}