

A Private Eye

Terms & Conditions of Use

Florida DOT goes outside its circle for an effective asset management program

The initial project, begun in July 2000, is a seven-year contract covering 253 miles of I-75 between Miami and Ocala.

- Joe Hall, Contributing Author

The unsolicited proposal arrived in 1999, a package promising the Florida Department of Transportation millions of dollars in annual savings if it would turn over maintenance of a stretch of highway to a private company. In the department's view it was a deal too impossible to be true—annual savings of 10%, assumption of all risk and other efficiencies.

“Oh, we were skeptical,” said Bill Albaugh, director of highway operations and a 34-year employee at FDOT. “We spent several months reviewing the proposal, and we couldn't see the savings that was promised, couldn't know about their responsiveness. We could see the potential for some of the things they proposed, but not to the degree that was promised. In the end, we agreed on a pilot project and said, ‘Let's see how they perform.’”

So FDOT issued a request for proposal (RFP) that generated stiff competition from the very few companies then involved in the infant industry. The initial project, begun in July 2000, is a seven-year contract covering 253 miles of I-75 between Miami and Ocala. It includes “fence-to-fence” service, meaning the contractor is responsible for all maintenance functions to the road and on the public lands on either side of it. It requires the contractor to provide round-the-clock response for roads, right-of-way, median, bridges, rest areas and call boxes. The winner of the first contract was Nashville-based Infrastructure Corp. of America.

A new repair fix

The performance results after six months were surprisingly positive—financial savings on the original contract were tracking at a robust 15% and the service level exceeded FDOT's expectations, Albaugh said.

Those results were so encouraging that FDOT quickly accelerated its private asset management activity to include a contract for the Panhandle and now, just four years later, has 17 such contracts across the state with four different companies. Today, about 20% of Florida's maintenance contracts are in the asset management form. The experience has given FDOT enough confidence that it plans to have nearly 30 contracts by 2008 worth about \$1 billion. By then about half of Florida's maintenance contracts will be asset management.

Florida isn't the highway asset management pioneer—that distinction belongs to Virginia—but the Sunshine State is the most dedicated to growing the concept. It has become, by all acclaim, the most successful state in the industry. Florida's record since 1999 demonstrates tens of millions in savings and an approach viewed as smart in an environment that requires government to protect its massive transportation assets with fewer dollars than before.

In the process, FDOT has in effect helped launch this burgeoning new industry known as asset management. Other states, including Alaska and Texas, are impressed by what's occurred in Florida and are pursuing similar business plans. The dollars involved are staggering. States spent more than \$30 billion last year on highway maintenance, according to the Federal Highway Administration.

“We are absolutely going to pursue asset management,” said Texas House Transportation Committee Chairman Rep. Mike Krusee, who recently visited Florida to explore the program and expects his state to issue contracts in 2005. “The most convincing argument for asset management is the scope of money

that can be saved.”

This potential has given rise to companies like Infrastructure Corp. of America, which has 11 contracts in Florida. The most recent contract awarded to ICA is to maintain one of Florida’s most important bridges, the Sunshine Skyway Bridge in Tampa, which at 22,000 ft is the world’s longest cable-stayed bridge. ICA is in discussions with numerous states intent on replicating Florida’s success.

“The Florida experience has enough of a proven track record to demonstrate to other states that an asset management approach works. It saves significant dollars while maintaining the same or potentially better service,” said Butch Eley, president of ICA, which began operations in 1998.

“The dynamic is in place for a strong future for private asset management. The potential for good success really goes back to the trends that prompted Florida to get in the business in such a big way. Asset management is going to continue to be one of the tools in the tool box as states address their financial challenges.”

Between the fences

The motivation in Florida was fueled by the national trend of declining state revenues. Fewer dollars are available to fund necessary public services. Governors are asking departments to reduce budgets and find new ways of doing the same work with fewer dollars.

At the same time resources are declining and there is increasing wear and tear on America’s roadways as traffic volume continues to increase at a rapid pace each year. Vehicle miles have been trending dramatically higher the past two decades, speeding deterioration of transportation infrastructure.

Eley and ICA viewed this atmosphere and saw a business opportunity with solid initial prospects and a potentially stronger future. Besides ICA, two other companies responded to Florida’s initial RFP; today there are four, with other traditional public transportation contractors, such as engineers, studying the arena closely.

“We started ICA for the express purpose of providing state DOTs and other transportation agencies another vehicle to accomplish their work and carry their dollars a little further,” Eley said. “The biggest advantage we deliver is a one-stop shop. By bundling the fence-to-fence activities, the department can move out of that work corridor, make a private company totally responsible, reduce administrative costs and allow the department to address challenges in other areas.”

Asset management is a comprehensive approach to maintaining transportation assets. ICA’s work in Florida includes mowing medians, picking up litter, maintaining toll booths, keeping rest areas clean, repairing guard rails and bridges, painting stripes on roads, fixing potholes and replacing roadway lights. Asset management is performance-based rather than task-oriented. For a lump-sum contract amount, the contractor guarantees and assumes risk for the work. Financial penalties exist to pressure performance.

In its traditional outsource program, Florida issues contracts for mowing when it is needed. It’s a bureaucratic process, heavy with paperwork. But under private asset management, the state doesn’t dictate the number of times an area needs mowing.

Instead, specific performance requirements are established. Grass must be maintained within a certain height range. Whether it requires mowing five times or 10 times, the responsibility lies with the contractor, and the cost is the same.

Random areas are inspected every four months and rated on a scale of 0 to 100. A below-standard rating can be made up in another inspection because the state averages the scores over a year. There

are tough financial penalties if work falls below performance standards set by the state in the contract.

Here comes the boom

Asset management is proving to be just right for Florida, Albaugh said. FDOT is reducing costs without compromising quality. "The program has been a tremendous success; the success and savings has been much more than we ever anticipated. We plan to grow it. Ten years down the road we will be even more into it."

And why not? The performance record in Florida is impressive. The 17 current asset management contracts total about \$485 million and are achieving annualized savings of about 17% compared with what Florida would be spending using its own forces. That amounts to a \$101 million savings to the state over the life of the six- to 10-year contracts.

Florida's plan is to increase its asset management contract inventory from the current 17 contracts to 28 by July 2008. Those contracts would amount to nearly \$1 billion in work and annualized savings of about \$121 million to the department. Albaugh forecasts the private market will deliver between 12% and 15% annual savings long term.

Florida's highly successful venture into asset management has caught attention from other states also looking for advantages to save precious budget dollars. Transportation officials from Alaska, Texas, Maryland, New Mexico and many other states attended an April American Association of State Highway & Transportation Officials conference in Orlando and spent considerable time inspecting the Florida model.

Texas House and Senate transportation committee members and DOT engineers recently made a special trip to Florida to tour project sites to learn more about the program.

If outside interest is an indicator, Albaugh believes private asset management is on a boom path. Because of the acknowledged record in Florida, it's just a matter of time before other states issue contracts, he believes. The ability of states to proceed with privatization will depend in part on the support of governors and the culture within transportation departments. "You have to have management folks willing to step out and do it. Our toughest opposition has been internal. We are changing the way we do business," he said.

As the phone rings with interest from across the country, Albaugh is becoming the best independent source to educate states considering asset management. He was invited this spring by the Tennessee General Assembly to meet with the Senate Transportation Committee, which is encouraging its DOT to adopt asset management.

"This is very innovative and we are learning a lot from the experience," Albaugh said. "We're now on our 17th contract and we have made lots of changes and improvements in the concept. We expect that will continue as we improve the program."

Hall is a former journalist and president of Hall Strategies LLC, Nashville, Tenn.

Source: *Roads & Bridges* September 2004 Volume: 42 Number: 9
Copyright © 2006 Scranton Gillette Communications