

USE OF PRIVATE DESIGN FIRMS GOOD PUBLIC POLICY

Prevailing economic conditions are forcing government entities and agencies to look for the most efficient methods to deliver vital infrastructure support. Using private design firms allows government to get the work done cost effectively and on-time, while allowing agencies to focus on managing programs that provide safe and reliable roads, bridges, mass transit, dormitories, hospitals, schools office buildings and treatment facilities. Thousands of owners, both public and private, have chosen private sector engineering firms for design services associated with their capital spending programs, New York should follow suit.

Study Shows Savings by Utilizing Private Design Firms

A 2011 report by Polytechnic Institute of New York University reaffirmed a 2008 report that pegged the cost differential between public and private designers at about 15% and substantiates the claim that New York State can achieve significant cost savings by using private-sector engineers. The study found that a typical NYS DOT employee costs more than \$6.4 million over a 30-year career because of the state's lush benefits package, policy of considerable paid leave and shorter work week. The report draws cost conclusions based on overhead, direct salaries adjusted for hours of work per week, fringe benefits, workers' compensation insurance, unemployment and social security costs. Moreover, private design firms offer a host of cost benefits, including paying engineers only for the time they work on a project, expertise in specific design areas and cost control. Furthermore, the Federal Highway Administration (FHWA) concluded that public agencies that outsource the vast majority of their work are the most efficient in getting projects designed and constructed.

Promoting Cooperation, not Competition

Outsourcing design work to private sector engineering firms allows government agencies to focus their resources on the total program, and not tie up resources with the high fixed costs associated with larger staffs. By coordinating the efforts between high quality government design managers and private design firms, the government agency can be more flexible in meeting the changing demands of the future. Since design typically costs less than 2% of total life cycle project costs, a smart design investment can save millions of dollars in construction and long-term maintenance.

Saving Tax Dollars

Utilizing private design firms works to the advantage of taxpayers. Private-sector engineers have consistently demonstrated the ability to deliver high-quality, cost-effective services on public projects. Typical government contracts with private sector design firms provide several noteworthy benefits to taxpayers:

- *Costs are capped.* When the state contracts with a private-sector engineering firm, the maximum amount the state will pay is established by contract. Allowable reimbursable costs are defined and limited by federal and state regulations. These costs are subject to audit, both before the contract is signed and after the services are delivered, in order to verify that the only costs the state pays for are related to the project. Projects designed by public employees have no such constraints.
- *Schedules are defined.* Contracts with the private sector have firm deadlines for completion. These limits ensure that projects are completed within prescribed schedules.
- *Other taxpayer-supported costs are reduced or eliminated.* The use of public employees creates many other hidden costs not associated with the private sector. From the civil service department performing human resources functions or general services departments performing indoor and

outdoor maintenance or building repairs, public agencies often rely on many external tax supported services.

- *Private-sector contracts mean that public agencies can be more flexible and avoid constant higher fixed costs.* With outsourcing, public agencies can get the job done without paying for design staff that are not needed on a full-time basis. Public employees continue to get paid and receive benefits, even if there is no work to be performed. Additionally, all indirect expenses such as benefits, utilities and support staff, continue to be incurred. Private firms are only paid for their working time. The government's financial responsibility ends with that project.

Private-sector engineering firms provide other costs savings as well.

- *Savings on staff administration, liability and equipment costs.* Private-sector firms purchase their own computers, plotters, CAD and GIS software, etc.—costs that are billed to a project based solely on their proportional use. Similarly, administration and overhead costs (such as liability insurance) are billed proportionally to individual projects. The public agency benefits from new technologies but only pays for a fraction of the cost.
- *Savings on worker benefits.* The lifetime benefits of outsourced employees are the responsibility of the private-sector firms. Public employees may receive pensions, health coverage and other benefits for decades after they leave their positions, all at taxpayer expense.

Generating Tax Revenues

The use of private-consultant engineering firms improves the revenue base for state and local governments. Private-sector firms pay sales taxes on supply and computer purchases, property taxes, and business income taxes. Conversely, when choosing state agencies to perform tasks, the state exempts the agencies from a variety of state and local taxes, including sales taxes, property taxes, business permits and occupational fees. These tax exemptions mean less revenue for the state and local governments.

Providing Access to the Latest Technology and Design Techniques

For complex jobs, the competitive nature of the private sector fosters a level of expertise and technical competence that is higher than can be harnessed by the state. Private-sector engineering firms make significant investments in technology and staff development every year—investments that the state can take advantage of without having to pay for them directly. For example, private sector engineers are required by law to continually update their engineering expertise by meeting continuing education requirements. Public sector engineers do not have this requirement to update their skills.

Engineering a Better Solution

By allowing public agencies to better manage design resources, New York will be able to address its infrastructure needs quickly, efficiently and with more resources going into direct investment. Public agencies can budget and plan more efficiently and be much more responsive to changing conditions by utilizing outside design professionals for the vast majority of their work. Working with private design firms, these agencies can provide the necessary services with the confidence that they are getting the best-designed projects.

In these challenging times, we must not lose sight of the fact that New York State's infrastructure is a critical component of our ability to return to economic prosperity. To that end, ACEC New York is committed to working with our public counterparts to maximize the benefit of every taxpayer dollar spent on the state's construction programs.

*Founded in 1921, the **American Council of Engineering Companies of New York** (ACEC New York) is the state's premier organization for consulting engineering firms, representing 280 companies and over 20,000 employees in New York. The organization's mission is to further the business interests of its members through advocacy, networking, education and business services. For more information, visit www.acecnyc.org.*

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