

Un-accountable:

# The Case of Highway Maintenance Privatization in Alberta



A study prepared for  
the Parkland Institute  
by Lisa Prescott, M.Sc.  
Foreword by  
Trevor Harrison, Ph.D.





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## About the author

Lisa Prescott completed a Master of Science in Engineering Management at the University of Alberta in the fall of 1999. She has a Bachelor of Science in Industrial Engineering with Distinction from the University of Manitoba. Since completion of her M.Sc., she has worked independently, performing contracts with a variety of companies and organizations, including Waiward Steel Fabricators, the Canadian Petroleum Institute, and the Alberta Court of Appeal. The latter resulted in the construction of critical path diagrams used in a book, written by Justice Jean Côté, titled *Slow Appeals: Causes and Cures* (2000). For the past three semesters, Ms. Prescott has taught Engineering Economics at the University of Alberta.

## Acknowledgements by Lisa Prescott

A number of individuals and agencies have assisted me in putting together this report. I would like to thank particularly Barry Belcourt of the City of Edmonton; Terry Carter, Jim Harvey, Les Hempsey, and Moh Lali of Alberta Transportation; David Climenhaga of the Alberta Union of Provincial Employees; Dr. Trevor Harrison of Parkland Institute; Mark Lisac of the Edmonton Journal; and Dr. John Whittaker of the University of Alberta. I also would like to thank the anonymous reviewers for their comments on an earlier draft of the report and Robin Hunter who copy-edited the final version of this report. Any errors or omissions, of course, are mine and mine alone.

## Abstract by Lisa Prescott

This report provides the results of a study that attempted to compare the current privatized primary highway maintenance system with the previous government-run program in the Province of Alberta. Ultimately, the study ran up against two problems that prevented this comparison. First, constant re-organization of the Government's ministries made tracking the changes difficult. Second, Alberta Transportation often did not have the information needed or was limited in providing information, by confidentiality issues dealing with private contractors, and therefore it was not even available through the Freedom of Information and Protection of Privacy Act. The report argues the government has not created the administrative structures necessary to properly evaluate the outcomes of its policies. The report concludes with recommendations to remove impediments to publicly evaluating the results of privatization of public services.

## Parkland Institute

Parkland Institute is an Alberta research network that examines public policy issues. We are based in the Faculty of Arts at the University of Alberta and our research network includes members from most of Alberta's Academic institutions as well as other organizations involved in public policy research. Parkland Institute was founded in 1996 and its mandate is to:

- conduct research on economic, social, cultural and political issues facing Albertans and Canadians.
- publish research and provide informed comment on current policy issues to the media and the public.
- sponsor conferences and public forums on issues facing Albertans.
- bring together academic and non-academic communities.

# Executive Summary

In 1995/96, the Government of Alberta decided to outsource all the maintenance on its 15,000 km of primary highways to private contractors.

In 1997, KPMG Consultants produced a study for the Government of Alberta with the intention of comparing the two systems. However, given that the system had been privatized for only one year they found that it was too early to compare the financial results of outsourcing highway maintenance to previous in-house methods.

Aside from this KPMG report, neither the government nor any other body has attempted a comparison of the previous government run program with the current privatized system. As it has now been eight years since the onset of privatization, enough time has passed to warrant a comparison.

This study attempted to compare the two systems. Specifically, its purpose was to answer the following question:

***Has the switch to private highway maintenance resulted in lower costs for the Alberta government while maintaining the same level of service?***

The study utilized information garnered from two additional reports commissioned (but never released) by the Alberta government (KPMG, 2001, and Opus, 2001), as well as Public Accounts (including the “Blue Book” of contracts paid out by government), Auditor General’s reports, and Alberta Transportation surveys and other data. Ultimately, however, the study ran up against two problems that militated against a full and complete answer to its main question. First, constant re-organization made tracking the changes difficult. This finding led to the following recommendation:

## Recommendation #1

**The re-organization of government ministries or their reporting and accounting practices should be accompanied by a document clearly outlining the nature of the re-organization and the steps necessary to make pre- and post-reorganizational comparisons.**

Second, though Alberta Transportation was very cooperative in sharing information, the department often did not have the information needed or was limited in providing information, by confidentiality issues dealing with private contractors, and therefore not even available through the Freedom of Information and Protection of Privacy Act. This conclusion led to the second recommendation:

## Recommendation #2

**The rules regulating private contracting by government should make information on contracts as open and transparent to the public as the rules regulating government departments and Crown agencies.**

In light of these findings, the report concludes that if the privatization of highway maintenance is any example, it appears the government has failed to put in place adequate means for assessing in a publicly accountable manner the success or failure of these experiments.

## Foreword by Trevor Harrison

In September of 1999, Parkland Institute was approached by the Alberta Union of Provincial Employees (AUPE) about conducting an independent study of the privatization of highway maintenance in Alberta that had occurred after 1995/96. (I stress “independent.” Parkland has a long-standing policy of non-interference from funding organizations and, in the past, has rejected contract proposals that have infringed on the institute’s or its researchers’ independence.) Parkland considered this an important public policy issue, given competing claims as to the benefits of privatization and evidence arising elsewhere that the policy, in regards to highway maintenance, might result in higher costs, poor conditions, and jeopardized safety.

Conducting such a study requires very specific skills and qualifications. Parkland was fortunate to acquire the expertise of Kevin Taft, then of Taft Research and Communications. Taft subsequently provided, in October 1999, a proposal to conduct a full-fledged evaluation of highway maintenance privatization in Alberta.<sup>1</sup> Due to circumstances, however, this more conclusive study never proceeded.

In the summer of 2002, the study was resurrected. Parkland acquired a qualified researcher in Lisa Prescott, holder of a B.Sc. in industrial engineering and a M.Sc. in engineering management. In the fall of 2002, Prescott began research based on the study proposal outlined by Taft Research and Associates.

The report that follows contains the results of Prescott’s study. It is as complete a public evaluation of privatized highway maintenance as can be conducted under current Alberta legislation. Indeed, it is a remarkable study, detailing with technical precision the manner in which highway maintenance is today conducted in Alberta. What did Prescott discover?

She found that most of Alberta’s highways are in “acceptable condition” and that the number of collisions in the province has remained relatively constant over the period 1991-2001. She also found that, when surveyed, most Albertans are satisfied with the Ministry of Transportation regarding such things as the “clarity of written materials.” (Notably the survey did not ask Albertans anything regarding how they view the condition of their roads - responses that, from my casual observations, might have required censorship.)

One of the common occurrences in doing research, however, is that often what a researcher sets out to discover is not the most important finding that arises. Parkland Institute and Lisa Prescott set out to answer one straightforward question: Has the switch to private highway maintenance resulted in lower costs for the Alberta government while maintaining the same level of service? Ultimately, she could not answer this question with any certainty due to confidentiality laws that pertain to contracts with private contractors. In itself, however, this is a fundamentally important discovery: the fact that the privatization of highway maintenance has occurred without proper public accountability, its costs and contractual obligations secreted from public scrutiny, despite the fact that Albertans pay the bill.

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1 Kevin Taft, with Sten Drugge and Greg Flanagan. A Proposal to Conduct an Evaluation of Highway Maintenance Privatization in Alberta. Edmonton: Parkland Institute, 1999.



There is a broader context for this finding and one that contains also a warning for the conduct of public policy in Alberta and elsewhere. The privatization of highway maintenance came shortly after a new Conservative government was elected in 1993. The government had been elected on a platform of fiscal austerity and promises of smaller government. An almost fanatical belief in markets and privatization fit well with these political objectives. Within months of the election, the government privatized Alberta's retail liquor industry. Other acts of privatization followed. Dr. Steve West reflected this zeal for markets when he said in the legislature in March 1994<sup>2</sup>:

**I'll make this boldest of statements: There isn't a government operation, a government business, a Crown corporation that is as efficient as the private sector, and indeed they're 20-to-40 percent less efficient. You don't have to do a study. You can guarantee it because of the structure in the way they run their economics. Therefore, you don't have to do a study to save the first 20-to-40 percent.**

In October 1994, West moved from Municipal Affairs to take over as the Minister of Transportation. Privatization of highway maintenance soon followed. By that time, West's confidence in privatization had reached new heights of optimism. In October of 1995, in response to a question in the legislature from then Liberal MLA Karen Leibovici about privatization in the Transportation department, West responded<sup>3</sup>:

**Mr. Speaker, we're right in the middle of the restructuring. It's a massive job, and it's a massive restructuring. We are going to be saving some 61 percent of this department's administrative costs. When this is all done, we'll bring forth that structure and what it looks like at the end.**

As Prescott's report shows, it is not at all clear what privatization looks like while the alleged cost savings remain unproven.

Indeed, the privatization of highway maintenance looks today, like many others of the Alberta government's initiatives, deeply flawed. Deregulation of energy has seen consumer prices skyrocket with no increase in capacity. The government's decision to turn over administration of Alberta Tourism was later rescinded when it was found to be inefficient. And liquor retailing, the original symbolic act of privatization, has been shown in three recent studies (including one conducted by Parkland Institute) to be a failure by almost any measure.<sup>4</sup>

Since 1994, mounting surpluses (drawn mainly from oil and gas royalties) have resulted in the steady pay-down of Alberta's public debt, such that the "mortgage schedule" for paying off Alberta's debt is a decade ahead of that set by the government in 1993. At the same time, Alberta's physical - not to mention social - infrastructure has continued to incur its own mounting debts due to continued government under-funding of many programs and services.

<sup>2</sup> Alberta Hansard, March 15, 1995.

<sup>3</sup> Alberta Hansard, October 17, 1995.

<sup>4</sup> Greg Flanagan, *Sobering Result: The Alberta Liquor Retailing Industry Ten Years After Privatization*. Edmonton and Ottawa: Parkland Institute and the Canadian Centre for Policy Alternatives, 2003; Consumers Association of Canada - BC, *Privatization of BC's Retail Liquor Store System. Implications for Consumers*. Vancouver: CAC, 2003; and Dan Lazin, "Privatized liquor: Albertans pay more," *Edmonton Journal*, June 7, 2003, p. A1.

In consequence, and despite growing questions about its privatization schemes, the Alberta government in recent years has begun floating the idea of "P3s" - public-private partnerships - as a cost efficient way of dealing with the problem of Alberta's crumbling roads, hospitals, schools, and other public institutions. There is nothing new about the idea of P3s, however. It is merely a new phrase for an old idea.

The evidence against P3s is convincing and voluminous, and it is growing. As detailed in Parkland's pre-budget analysis of Alberta's finances earlier this year<sup>5</sup>, P3s pose significant financial risks for governments, including higher costs, lost revenues, and loss of control. I will not address here the economic problems underlying P3s, however. Instead, I will argue that P3s - indeed, privatization in any form - as presently constituted under Alberta's privacy laws and the secrecy practiced by the government itself, represent a genuine problem of public accountability. On the one hand, governments use public money to contract with private companies. On the other hand, privacy laws prevent the public from knowing whether or not they have received "fair return" on the purchase. It is this contradiction that makes this study of highway maintenance privatization important.

Has highway maintenance privatization been a success? The government says so. Private business operators, being paid out of the public purse, say so. But, as Prescott's study makes abundantly clear, the public can never know for certain. Neither consulting firms, contracted by the government, nor the Auditor General of Alberta are

mandated to examine the consequences of privatization. The privatization of highway maintenance is part of an increasing thicket of secrecy woven by the Alberta government and private business, while public accountability - a fundamental of democracy - suffers. As Prescott argues, "Albertans deserve policies based on more than faith; they deserve policies whose outcomes can be measured and which are publicly accountable." That is why Lisa Prescott's study matters.

Read this report. Read it for what it has to say. But read it especially for what it is unable to say and for what you - as a citizen of Alberta and a taxpayer - can never know.

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5 *Alberta's 'Good Enough' Approach to Fiscal Management.* Parkland Institute's Report on Alberta's Finances 2003. Edmonton: Parkland Institute, 2003.



## Introduction

Alberta's transportation network includes more than 160,000 km of two-lane equivalent highways. Of this, over 15,000 kilometres are classified as Primary Highways.<sup>1</sup> Primary highways are classified as such based on criteria of population, traffic, travel distance, network continuity and regional representation. These highways consist of major and minor arterials intended to address international, inter-provincial, provincial and interregional travel demands<sup>2</sup>.

Up until the mid-1980s, the Province of Alberta carried out all the maintenance on its primary highways. The maintenance of secondary highways, resource roads and local roads fell under the jurisdiction of the municipalities. Throughout the mid to late 1980s and the early 1990s, the government gradually expanded the role of contractors in the maintenance of its primary highways, until 1995/96 when it decided to outsource all the maintenance to private contractors.

The maintenance of Alberta's highways includes a number of major activities. These include bridge work such as deck repair, painting and washing; concrete work such as maintaining retaining walls, curbs, gutters, medians and sidewalks; drainage activities for erosion control, beaver dams, culverts, storm sewers, manholes; surface maintenance such as crack-sealing, dust abatement, and patching; winter maintenance such as snow fencing, snow and ice control and thawing culverts; safety activities such as accident damage cleanup,

repair and investigation; maintaining traffic control devices such as street lights, guardrails, signals, signs, painting traffic lines and railway crossing protection; right of way maintenance such as brush control, clearing, fencing, rest area maintenance, mowing, weed control, and refuse pickup; and administrative activities such as acquisition and managing the people and facilities associated with highway maintenance.

The outsourcing was done over the period of one year with contracts being tendered starting in September 1995 and some contracts commencing in January 1996. The province's highways were divided into 30 Contract Maintenance Areas (CMAs), each containing approximately 500 km of two-lane equivalent primary highway. Contractors were limited to a maximum number of 4 CMAs in order to prevent any monopolies from developing. The initial tendering of the contracts resulted in the 30 CMAs being awarded to 8 contractors.

The main goals of the outsourcing decision were to:

1. Reduce the total cost of highway maintenance;
2. Ensure public safety; and
3. Maintain and improve the quality of service.<sup>3</sup>

The purpose of this study was to answer the following question from a cost standpoint:

*Has the switch to private highway maintenance resulted in lower costs for the Alberta government while maintaining the same level of service?*

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<sup>1</sup> *Alberta's Transportation Advantage*, Alberta Transportation website, 1997/98.

<sup>2</sup> *Roadway Classification Guidelines*. Alberta Transportation website, undated.

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<sup>3</sup> *Retendering Alberta's Highway Maintenance Contracts*. Alberta Transportation, undated.

## Findings

### Costs:

In February of 1997, KPMG Consulting completed a report <sup>4</sup> analyzing the privatization process, namely the request for proposal stage and the issuing of contracts. In this report, a methodology was developed to calculate Alberta's primary highway maintenance costs. The only year for which the KPMG report calculated the primary highway maintenance cost using actual figures, as opposed to estimated or forecasted figures, was 1995/96 where they found the cost to be \$100,400,000, adjusted to 1997 dollars. The Government of Alberta later used this methodology in response to a written request for information on the primary highway maintenance costs. The Government's results are shown in the following table:

**Government's Results using KPMG Methodology**

Year	Cost (in 1997 \$)
1990/91	107,734,000
1991/92	102,790,000
1992/93	96,682,000
1993/94	93,755,000
1994/95	100,953,000
1995/96	102,229,000
1996/97	104,982,000
1997/98	94,954,000
1998/99	95,159,000

<sup>4</sup> The KPMG report came in two volumes prepared for Alberta Transportation and Utilities: 1) *Outsourcing of the Maintenance of Primary Highways - Documentation Review*. Final Phase One Report; and 2) *Outsourcing of the Maintenance of Primary Highways - Financial and Other Impacts*. Final Phase Two Report. Both documents were submitted by Jan Bowland (KPMG Project Manager) and Andrew Mardon and Amit Monga to Alberta Transportation & Utilities on February 5, 1997.

Note that the cost calculated by the government for 1995/96 is \$1.83 million more than the one arrived at in the KPMG report. No explanation was given for this discrepancy.

As set out in the original proposal, the direct costs of Alberta's primary highway maintenance program were to be determined from the Public Accounts and compared with the total cost of maintaining the highways as determined by KPMG in this 1997 report. However, the KPMG report was difficult to follow; even after viewing the Public Accounts, it was impossible to identify from where many of their numbers derived. However, in the Program Highlights section of the 1995/96 public accounts, the cost of Primary Highway Maintenance is \$77,154,000.

The methodology developed by KPMG, as used by the government, utilizes this value as a base and then adds and subtracts from it to determine the primary highway maintenance cost. The first part of this methodology is straightforward enough. The amount spent on maintaining highways and bridges on Indian Reserves and Metis settlements is added, as is the amount spent on maintaining ancillary items such as rest areas, vehicle inspection stations, airports and ferries. However, in the Public Accounts, these amounts are not available. Only after adding them together was it possible to determine that they are listed as one item under Other Provincial Roads and Infrastructure in the Program Highlights.

In the second part of the methodology, "adjustments" and "allocations" are made. These include such things as subtracting the amount spent on airports, improving district roads and bridges and motor transport inspection. While this sounds simple enough, none of these

numbers are available in the Public Accounts, making it impossible to validate the numbers arrived at using this methodology.

The following table shows the amount spent on primary highway maintenance, according to the Public Accounts:

Year	Maintenance Cost as per Public Accounts (\$)
1995/96	77,154,000
1996/97	100,700,000
1997/98	125,483,000
1998/99	92,545,877

Note that before 1995/96, the amount spent on Primary Highway Maintenance is not available in the Public Accounts.

Beginning in 2000, the Public Accounts become even more confusing. Under the Primary Highway Maintenance heading for 2000 there are now two components: an Operating Expense, in the amount of \$86,979,000, and a Capital Investment of \$8,689,000. Then, in 2001, the Primary Highway Maintenance and Construction headings are combined into one category with two items: an Operating Expense of \$203,974,000 and a Capital Investment of \$133,823,000. In 2002, Secondary Highways are combined with Primary Highways and called Provincial Highways and show an Operating Expense of \$275,889,000 and a Capital Investment of \$229,523,000.

The librarian at the Legislative Library said that the Public Accounts are the most detailed information released to the public.<sup>5</sup> She agreed that KPMG was most likely able to find the more detailed information because they were given special access.

The main author of the report was unwilling to discuss the report, stating that KPMG does not discuss reports with third parties without the permission of the client (Alberta Transportation). Speaking candidly with the author, she said that it was very unlikely this information could be found at all as KPMG had special access to Alberta Transportation's numbers that are not available publicly.

As a result, a new approach was taken. To determine the cost of Alberta's privatized maintenance program, Work Flow Charts were constructed in order to analyze each task and assign it a dollar value.<sup>6</sup> From there, it was hoped that the total estimated cost of the maintenance program could be determined using work quantities and then compared with the cost of a publicly run program. However, after completion of these charts, it was found that detailed cost information for each task is not available. Alberta Transportation does not release unit prices saying that these are confidential. The department was also unwilling to release information on work quantities saying that their data is compiled with respect to each Contractor and this information is also confidential. A request for information on the total amount of work done on each bid item and an average unit price for each bid item was turned down on the basis that it would take too much time to prepare.

<sup>5</sup> Alberta Transportation Business Plans were also reviewed and found to contain less detail than the Public Accounts.

<sup>6</sup> Copies of the flow charts may be purchased separately from Parkland Institute.

This approach also required determining the amount spent by Alberta Transportation on salaries. The Public Accounts contain information on salaries, although they only list a figure for all salaried employees and do not indicate how many of those are involved in maintenance. An attempt was also made through a couple of sources to determine the number of highway maintenance employees before and after privatization. Information provided by the Alberta Union of Provincial Employees (AUPE) proved insufficient, however, as it does not indicate for which years their members worked in highway maintenance, only if they are active or inactive.

Similarly, Alberta Transportation's Highway Maintenance Director reported that there is no record of the number of and type of employees working during the years before privatization. The Director's only suggestion was to go through the old Alberta Transportation phone books and count the number of people based on their job title. This was attempted, but quickly abandoned when it became apparent that the job titles in the phone books did not match those used by AUPE. This meant that all the salary information previously obtained from AUPE would be unusable unless AUPE job titles could be matched with the government's job titles. (A call to the Personnel Administration Office was initially returned with the promise that the request had been transferred to the correct person and was being looked into. However, as of writing this report, there has been no reply.)

In the process of this research, a report by KPMG, produced in June 2001, but not released publicly, was discovered.<sup>7</sup> The KPMG report is missing its own Appendix A, titled 'Key Calculations' in the Table of Contents, because Alberta Transportation deemed this information to be confidential. The report gives the total cost spent on primary highway maintenance contracts for 1995 and 1998-2000. It also gives the total amount spent on primary and secondary highway maintenance contracts for 2001. There is no breakdown on these amounts. The main author of the KPMG report was contacted but, as before, stated that KPMG does not speak with third parties.

Again, Alberta Transportation was contacted in an attempt to find out the amounts spent on contracts in 1996 and 1997. Their response was that this information is not available through Alberta Transportation. In a Government publication known as the 'Blue Book', the Government reports the amounts paid to each contractor. However, the number given is the total amount paid out to each contractor and since many contractors in highway maintenance are also involved in construction, this amount is of little value.

In November 2001, Opus International Consultants Limited, a New Zealand consulting group, provided Alberta Transportation with a review of the delivery process of design, construction administration and maintenance of the Alberta road asset.<sup>8</sup> They recommended greater transparency and encouraged the

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7 KPMG, Review of the Provincial Highway Re-Tendering Process Comparing 1995/96 to 2000. Report prepared for Alberta Transportation. Submitted by Bob Treidler (CMC) and Elaine Chow, June 2001.

8 Opus International Consultants Limited, Review of Delivery Processes. Report prepared for Alberta Transportation. Submitted by Tony Porter, Melvyn Maylin, and Nick Gurr, November 2001.

“measurement of, and accountability for, the total cost of owning and managing the asset.” Unfortunately, the report remained high-level and did not delve into calculating the actual cost of maintaining the highways. Like the 2001 KPMG report, the government has never released the Opus report to the public.

Further complicating the cost issue is the privatization of Alberta’s secondary highways. This privatization began in the fall of 1999 and continued until the spring of 2001. This means that the total amount spent on contracts for fiscal years 1999/2000, 2000/2001 and 2001/2002 are all affected by this transition. Thus, the last fiscal year that is unaffected is 1998/1999, four years ago and almost all the Contract Maintenance Areas have been re-tendered since then. The first fiscal year after the privatization of the secondary highways would be 2002/2003. However, information for this year is not yet completed and will not be available for some time (last year’s annual report was not released until June 25, 2002).

A report put out by the government in May 2003, titled “Future Highway Needs,” states that outsourcing highway maintenance has reduced maintenance costs by 28 percent. It also contends that outsourcing of engineering design and contract administration costs has reduced these costs by 36 percent. There are no calculations or references included in the report to support these figures. It is likely these figures include savings from outsourcing secondary highways as well as primary highways since the report was produced after secondary highways were privatized.

However, as a point of comparison, total primary highway maintenance costs were reduced by only 11 percent from 1990/91 to 1998/99, according to the government’s calculations using the KPMG method.<sup>9</sup>

According to the same report, the government spends approximately \$5,300/km/year on total highway maintenance costs. Multiplying this figure by the total length of Alberta’s primary highways yields \$79,500,000, a reduction of about 26 percent from the amount spent in 1990/91. Again no supporting calculations are shown, however, though the report states that “on average AT spends around 1% of asset value on maintenance compared to 1.5 - 2% by private sector.”<sup>10</sup>

The 1997 KPMG report also looked into other impacts of privatization. Their review concluded that the awarding of contracts was fair, reasonable and unbiased. To summarize the impacts, they found that:

1. It was too early to compare the financial results of outsourcing highway maintenance to previous in-house methods.
2. Alberta Transportation treated department staff in a fair manner and minimized the negative impacts on them.
3. Alberta’s highways were being maintained by the contractors to a similar level as they had been before privatization.

Note the KPMG Report was unable to determine the lasting financial, human, and quality implications of privatizing since it was completed not even a full year after full outsourcing. One might therefore suggest the report implies that such a study be done in the

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9 *Future Highway Needs*, Alberta Transportation, May 28, 2003.

10 *Future Highway Needs*, Alberta Transportation, May 28, 2003.

fullness of time, but this has not been done and the government has made no public attempt to study the privatization issue since. Neither the 2001 KPMG report nor the 2001 Opus report, discussed earlier, was charged with evaluating the outcomes of privatization. Likewise, it is not in the mandate of Alberta's Auditor General to evaluate the outcomes of government policy, merely the implementation of policy.

In contrast to Alberta's situation, the 1991 Minister of Transportation and Highways in British Columbia stated his plan to undertake "a thorough review of the privatized road and bridge maintenance program to ensure that the taxpayers of British Columbia are getting good value for their dollars and that high standards of service are maintained."<sup>11</sup> The subsequent study found that costs had actually increased by \$19 million per year in 1992/93 constant dollars.<sup>12</sup> Similarly, in 1999, the provincial auditor of Ontario found private road maintenance was costing \$2 million more than when it was a not-for-profit service.<sup>13</sup>

While the results of highway maintenance privatization in BC and Ontario have no effect on the outcome in Alberta, they do show that a 20-40 percent savings is not a guarantee, as Dr. Steve West - an Alberta cabinet minister - contended in 1994.<sup>14</sup> Furthermore, these results argue that a comparison of the highway maintenance program before and after privatization is necessary.

However, due to confidentiality laws and problems resulting from constant government reorganization, it was impossible in the Alberta case to confirm any claims that privatization of primary highway maintenance has resulted in cost savings to the public.

### Quality Savings:

One goal of the government's privatization plan was to maintain the level of quality service of the highway maintenance program. At the time of the 1997 KPMG report, it was too early to compare the maintenance of highways pre- and post-privatization.

However, given that Alberta's highways are aging, it can be assumed that the costs of maintaining them to a consistent standard would actually increase over time. The following chart, prepared by Alberta Transportation, shows the cost of typical road deterioration over time.<sup>15</sup>

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11 Peter Burton, Ron Parks, Kelvin McCulloch (Ernst and Young), and Robert G. Harvey, *The Operational, Human Resource and Financial Implications of the Privatized Highway Maintenance Program of the Province of British Columbia. A Preliminary Report*. Prepared for the BC Ministry of Transportation and Highways, June 1994.

12 Ibid.

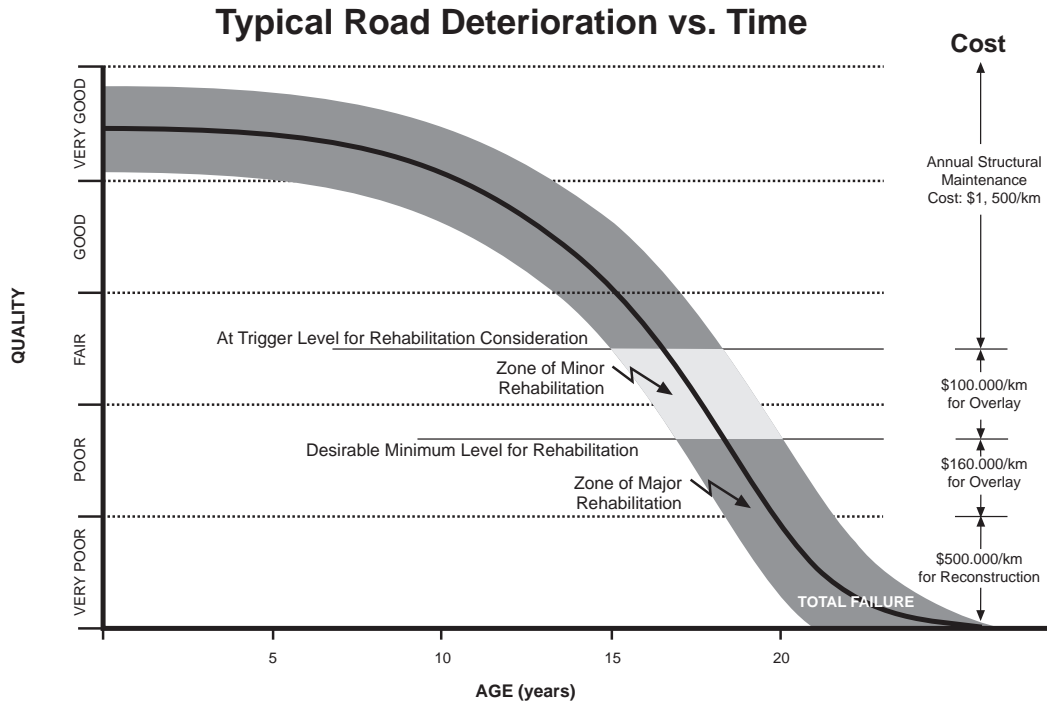
13 Highway Privatization Not Worth Its Salt, Ontario NDP, December 4, 2002.

14 Alberta Hansard, March 15, 1995.

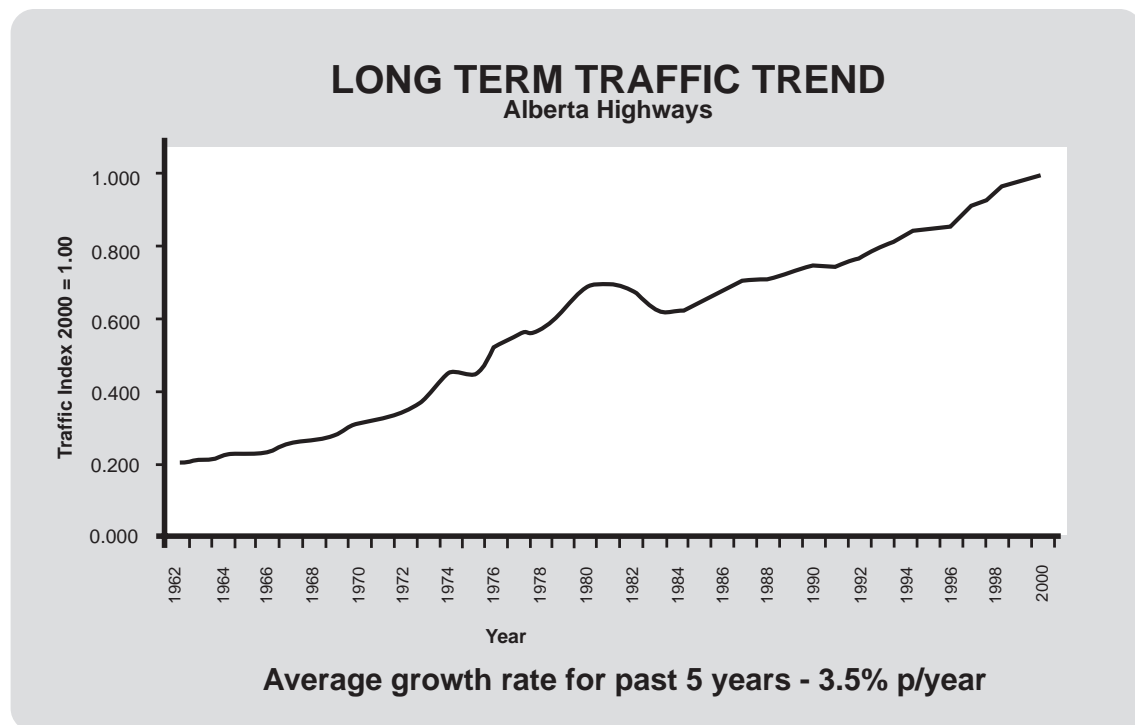
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15 Future Highway Needs, Alberta Transportation, May 28, 2003.





Compounding the problem of road deterioration are the increasing demands placed on Alberta's primary highways. This next graph, prepared by The Alberta Roadbuilder's Heavy Construction Association, shows the increasing traffic on Alberta's highways.



In terms of meeting performance standards, at the time of the 1997 KPMG report, no demerit points for non-conformance or failure had been issued. However, since then, a small number of contractors have been issued demerit points, although this information is not available to the public.<sup>16</sup>

A report prepared for the BC Ministry of Transportation and Highways<sup>17</sup> found that in that province the more visible, cosmetic work was being done more extensively than the less visible preventative maintenance work, to an extent that the highway infrastructure was at risk over the long term. Similarly, the previously cited 2001 Opus report, prepared for the Alberta government, stated, “we are concerned that Alberta Transportation may be focused on minimising the cost of routine maintenance and not the life cycle cost of the pavements.” This should be of great concern to Alberta’s road users since poor highway maintenance reduces safety and increases vehicle damage and user operating costs.<sup>18</sup>

In 1998/99, the government changed the way they measure highway quality. Previous to 1998/99, they used an index called the Pavement Quality Index, defined as the Percentage of Primary Highway Providing Desirable Driving Standards. PQI is made up of three pavement condition parameters: pavement roughness, pavement surface distress visual evaluation and pavement strength.

In this model, these parameters are combined together with Roughness (IRI) having 70 to 80 percent weight, Surface distress visual evaluation 10 percent, and Strength as 10 percent as well. The results from 1991/1992 until 1998/1999 are as follows:

Pavement Quality Index	
Year	Primary Highways
1998/99	83%
1997/98	86%
1996/97	90%
1995/96	91%
1994/95	89%
1993/94	90%
1992/93	89%
1991/92	92%

In 1998/1999, they began reporting pavement quality using the International Roughness Index (IRI), which is defined as a specific mathematical transform of the true profile (note: a lower number indicates a less rough road). The results from 1998/1999 until 2000/2001 are as follows:

International Roughness Index		
Year	National Highway System	Other Primary Highways
2000/2001	1.48	1.51
1999/2000	1.58	1.62
1998/1999	1.75	1.81

16 Dennis Hryciuk, “Snow removal gets icy reviews,” The Edmonton Journal, January 13, 1999.

17 Peter Burton, Ron Parks, Kelvin McCulloch (Ernst and Young), and Robert G. Harvey, The Operational, Human Resource and Financial Implications of the Privatized Highway Maintenance Program of the Province of British Columbia. A Preliminary Report. Prepared for the BC Ministry of Transportation and Highways, June 1994.

18 Future Highway Needs, Alberta Transportation, May 28, 2003.

The United States Federal Highway Administration has developed a standard by which the IRI Ratings can be classified. U.S. Interstate highways represent the equivalent of Canada’s national highways.

Non-interstate highways can be compared with Alberta's other primary highways. The U.S. standard follows:

<b>Highway Pavement Condition</b>		
<b>IRI Rating</b>	<b>National Highways (US interstate)</b>	<b>Primary Highways (Non-interstate)</b>
Poor	1.9 or greater	2.70 or greater
Fair	1.50 to 1.89	1.50 to 2.69
Good	0.95 to 1.49	0.95 to 1.49
Very Good	Less than 0.95	Less than 0.95

In summary, changes in the means of measuring road quality, combined with increased demands and normal deterioration, make difficult any firm determination of the impact of highway maintenance privatization upon the quality of provincial roads.

Using this benchmark, Alberta's primary highways were in fair condition in 1998/99 and 1999/2000 and in good condition in 2000/2001.

In 2001/2002, the government again changed their reporting of pavement conditions. Now, instead of reporting the actual IRI, they report the percentage of Provincial Highways in Acceptable Condition saying that this measure indicates the percentage of provincial highways with an IRI of fair or better. According to the above table, this is 1.89 or greater for National Highways and 2.69 or greater for Non-Interstate Highways. The results for 2001/2002 show that, by this measure, 95.8 percent of Alberta's highways were deemed to be in acceptable condition. It must also be taken into consideration, that this value now includes the results for secondary highways whereas these were reported on their own prior to 2001/2002.

### Safety:

The following table shows the number of licensed drivers in Alberta from 1991 to 2001 as well as the number of fatal collisions, injury collisions, property damage collisions and total collisions that occurred in each year on Alberta's primary highways.

Year	Number of Licensed Drivers (LD)	Fatal Collisions	Injury Collisions	Property Damage Collisions	Total Collisions (TC)	TC/LD
2001	2, 230,082	150	1920	8573	10643	0.48%
2000	2, 179,779	138	1805	7972	9915	0.45%
1999	2, 127, 437	133	1791	7515	9439	0.44%
1998	2, 072,831	149	1805	7477	9431	0.45%
1997	2, 020,276	158	1798	7117	9073	0.45%
1996	1, 993,453	140	1848	7549	9537	0.48%
1995	1, 970,808	138	1575	6898	8611	0.44%
1994	1, 940,987	163	1681	6808	8652	0.45%
1993	1, 918,098	143	1587	6319	8049	0.42%
1992	1, 902,072	118	1548	6210	7876	0.41%
1991	1, 880,478	160	1871	6652	8683	0.46%

The numbers of licensed drivers and collisions per year was received from the Transportation Safety Services Division of Alberta Transportation. The far right column shows the percentage of licensed drivers in a collision. These numbers indicate that the level of collisions has remained relatively constant over the ten-year period.

This finding suggests that privatization of highway maintenance has not resulted in increased vehicle collisions. We cannot be absolutely certain of this conclusion, however, as changes in driver demographics, vehicle safety, or law enforcement practices may also have had an offsetting impact.

### Client Satisfaction:

In 2000, Alberta Transportation began hiring a private consultant to conduct a Client Satisfaction Survey. The Equus Consulting Group conducted the last survey in January 2002 for the 2001 calendar year. The next survey will be conducted in January 2004 for the 2003 calendar year.

The survey is administered to organizations that have had direct interaction with Alberta Infrastructure. These, include municipalities, regional health authorities, schools and school boards, post-secondary institutions, other Alberta government departments, associations, contractors, consultants, First Nation commu-

nities, Métis settlements, law enforcement agencies, commercial carriers, driver schools, driver examiners, license registries and oil and gas industry suppliers. The general public and indirect clients are not surveyed.

The survey is organized according to ten key service areas. These service areas are the management of the provincial highway network and the municipal grant programs, design and construction of water management facilities, traffic safety programs, monitoring and licensing of driver training/examination operations and drivers, regulation of commercial vehicles and carrier operations, services to supported building infrastructure and to government owned and leased properties, and supply management services. The survey is high level and does not include specific services provided within programs.<sup>19</sup>

Client satisfaction is measured on a six-point scale where 6 means very satisfied and 1 means very unsatisfied.<sup>20</sup> For 2000 and 2001, client satisfaction was 4.5, falling somewhere between somewhat satisfied and satisfied. In 2001, the survey was delivered to 2,968 clients. Of these, 28.2 percent or 760 completed and returned the survey.

Ignoring the problem of a low return rate (common with mail-in surveys), these survey results would seem reasonably good. However, what exactly were the respondents “satisfied” with? The respondents to the survey are asked to rate the Ministry on eight key service areas for clarity of written materials, ease of access to

information and services, consistency of services, timeliness of service delivery, proficiency of staff, courtesy of staff and overall quality of service.

To be blunt, it is likely that many Albertans if asked would consider some of these questions rather trivial, and certainly not probing. The fact is, however, there has been in Alberta no survey of clients with respect to highway maintenance specifically. By comparison, annual customer satisfaction surveys in Nova Scotia (for example) include the condition of the highways and their replies have detailed comments, including complaints about potholes, cracked pavement and snow and ice control.<sup>21</sup>

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19 2000/2001 Alberta Infrastructure Annual Report, pp. 64-65. Edmonton: Alberta Infrastructure, 2001.

20 The survey results that follow are taken entirely from the 2001/2002 Alberta Transportation Annual Report, pp. 60-61. Edmonton: Alberta Transportation, 2002.

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21 The Canadian Union of Public Employees, Communications and Research Branches, Taking the Low Road on Highway Maintenance: An Updated Report on Contracting Out and Privatization of Nova Scotia's Roads and Highways, April 17, 2002.

## Summary Recommendations

Eight years have passed since the Government of Alberta privatized Alberta's primary highway maintenance program. During this time, the government has made public only one report studying the effects of this privatization. That report, prepared by KPMG in 1997, conceded that insufficient time had elapsed since privatization to determine its financial impacts. Neither the government nor any other body has since attempted a comparison of the previous government run program with the current privatized system. This study attempted to do so, in particular to determine whether the switch to private highway maintenance has resulted in lower costs for the Alberta government while maintaining the same level of service. Ultimately, the study ran up against two problems that militated against a full and complete answer to this question.

First, constant re-organization makes tracking the changes difficult. In 1994, a year before privatization, the government branch in charge of primary highway maintenance was known as the Ministry of Transportation and Utilities. In 1999, the department was reorganized. The Ministries of Transportation and Utilities, Public Works, and Supply and Services were brought together under the Ministry of Alberta Infrastructure. Then, in 2001, the relevant department became Alberta Transportation. Additionally, during this time period the accounting system changed.

This problem leads to the following recommendation:

Recommendation #1:

**The re-organization of government ministries or their reporting and accounting practices should be accompanied by a document clearly outlining the nature of the re-organization and the steps necessary to make pre- and post-reorganizational comparisons.**

Second, though Alberta Transportation was very cooperative in sharing information, the department often did not have the information needed or was limited in providing information, by confidentiality issues dealing with private contractors, and therefore it was not even available through the Freedom of Information and Protection of Privacy Act. To take a concrete example, contract unit prices are not publicly available nor is the total amount spent on highway maintenance contracts. Moreover, the publicly available annual reports do not contain enough detail to derive this information. The problem is not that the information does not exist. The problem is that the government controls the information necessary to evaluate the success of its experiment in privatizing highway maintenance. (As a point of comparison, note that the government of British Columbia did cooperate in an in-depth analysis of the implications of privatizing their highway maintenance program.<sup>22</sup> This analysis found that privatization led to significantly higher costs.)

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<sup>22</sup> Burton et al., cited above.



These difficulties lead to another recommendation:

Recommendation #2:

**The rules regulating private contracting by government should make information on contracts as open and transparent to the public as the rules regulating government departments and Crown agencies.**

Alberta has led the country in experimenting in recent years in new ways to deliver public goods and services. If the privatization of highway maintenance is any example, however, it appears the government has failed to put in place adequate means for assessing in a publicly accountable manner the success or failure of these experiments.

Albertans deserve policies based on more than faith; they deserve policies whose outcomes can be measured and which are publicly accountable.







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