The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

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The following is an assistance memo prepared by the PEER Committee staff in response to a specific legislative request. It is not a report of the PEER Committee, nor does it represent the individual or collective views of the PEER Committee members. A legislative assistance memo is the PEER staff's best efforts to answer the questions posed within the time frame allowed and with the information sources available. Unless prior approval has been given, this memo will be distributed only to the requesting legislator(s) named below.

To: Members of the Mississippi Legislature
From: Max Arinder
RE: Analysis of Consultant's Report on MDOT Equipment
Date: March 5, 2014

During PEER's recent review of the Mississippi Department of Transportation (MDOT), PEER staff learned that MDOT had contracted with Dye Management Group[1] (DMG) to review MDOT's equipment management processes.

DMG's goals were to review MDOT's equipment management processes and systems, identify areas for improvement based on industry best practices, and analyze the rent/lease–versus–buy decision for key equipment classes. On December 20, 2013, DMG provided its report, *Equipment Management Review: Final Recommendation Report*, dated November 2013, to MDOT and MDOT released the report to the PEER staff on February 17, 2014.

This memo is not intended to provide a full summary of the DMG report, but to provide an analysis of its major points. The full DMG report is available through a link on PEER's website www.peer.state.ms.us or MDOT's website.

Summary of DMG's Report

DMG's report adequately addresses the gaps between industry best practices for equipment management and MDOT's current equipment management practices. The report offers recommendations in seven critical areas (e. g., establishing optimum fleet utilization and replacement schedules) and lists the potential benefits of implementing those recommendations. DMG's report also provides an implementation strategy, which includes the steps necessary to implement each recommendation, the challenges/risks, a mitigation strategy, and estimated task duration for each recommendation. The implementation strategy

[1]Dye Management Group is a consulting firm based in Washington that has a specialized focus on the transportation industry.

assigns some of the necessary tasks to executive staff, equipment supervisors, equipment purchasers, and district representatives; the strategy does not assign specific staff members to several other tasks, however. DMG estimates that all tasks should be completed within ninety days, although the recommendation for establishing utilization standards will require thirty-day annual reviews to ensure that utilization standards remain appropriate.

Assessment of DMG's Report Regarding Equipment Utilization Rates

MDOT's contract with DMG states that DMG will "identify productive, reasonable utilization rates applied at other DOTs or in research publications to help MDOT develop a set of productive utilization rates." PEER staff expected to find in DMG's report a set of utilization rates that could be applied to all of MDOT's equipment, including vehicles. However, the report did not provide these rates. Instead, the report offers a process that MDOT can follow in order to establish its own utilization rates. DMG identified the director of MDOT's Asset Management Division as the staff member who should perform this process and work with Information Systems to implement the minimum standards. DMG also recommended that an executive committee determine the appropriate utilization rates.

Because DMG's report does not present the utilization rates of equipment or identify a set of productive utilization rates, the report does not provide the data needed to show the level of equipment underutilization by the department or identify which underutilized equipment should be retired or reassigned. MDOT must follow through with the process of establishing a set of utilization rates for all of its equipment before PEER staff can determine whether DMG's recommended process has been successful.

Assessment of DMG's Report Regarding Benefit-Cost Analysis

MDOT's contract with DMG states that DMG will "focus on the decision to buy, lease, or rent equipment." DMG conducted a benefit-cost analysis on selected equipment--the motor grader and bulldozer equipment classes--to project potential savings of renting or leasing the equipment as opposed to owning the equipment. The analysis showed that MDOT has underutilized motor graders and bulldozers and MDOT could achieve savings by renting/leasing these classes of equipment. DMG's recommendation was for MDOT to develop a policy/program to encourage leasing of vehicles and equipment and focus on key equipment classes first.

Because DMG's analysis was limited to two equipment classes, MDOT must expand the work of DMG by conducting benefit-cost analyses on all types of equipment, including vehicles, to further inform any rent/lease-versus-buy decisions.

PEER staff is currently assisting the Legislature in including benefit-cost analyses in the budgeting process. In the future, the Legislature and PEER will be interested in determining whether agencies have the data necessary to perform benefit-cost modeling. DMG stated that it had encountered several instances of missing or incomplete data that prevented a thorough benefit-cost analysis to be performed. Thus, MDOT should begin working toward correcting this problem and ensuring complete data sets for its equipment.

Should you have questions or require further assistance, please do not hesitate to contact me at (601) 359-1226.