

**Department of Planning and Budget
2004 Fiscal Impact Statement**

REVISED

1. Bill Number HB1043

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron Saxman

3. Committee General Laws

4. Title Competitive Government Act.

5. Summary/Purpose:

Creates the Competitive Government Act, which sets forth the process to identify functions of state government that are commercial activities (a defined term in the bill) and that should be contracted out to the private sector.

Each Secretary is to create an intra-secretarial task force consisting of representatives of each agency. The task force is to inventory the activities of each agency to determine which are not core activities of government, to identify the number of state employees required to perform each non-core activity, and to perform a cost comparison to reveal if each non-core activity as performed by state government is within five percent of the cost as performed by the private sector. If the activity is within five percent of the private sector cost, it is to continue to be performed by state government. The bill requires the Governor to direct agencies to outsource activities identified in the inventory to the private sector.

6. Fiscal Impact is preliminary. It is not possible to provide a complete quantification of the fiscal impacts of this bill, since it is not known how many activities would be privatized and how much savings or costs would be associated with the outsourcing. However, it is anticipated that the state would experience short-term costs of severance benefits to state employees laid off as a result of privatizations required by this bill; these costs are estimated to be \$14.1 million in FY 2005.

Additional workload and some costs would be associated with the effort to inventory all activities of state agencies, identify those that are not core functions of government, and to determine the cost of performing the activity in the private sector.

The bill has the potential to save money for the state in the long run, where the cost comparison reveals that activities would cost less in the private sector. It should be noted, however, that the bill also potentially requires the privatization of activities that would cost more to be performed in the private sector, which could result in a significant increase in costs to the state.

Short-term costs will be associated with privatization of state activities. The outsourcing of state activities will result in loss of state government positions and, in all likelihood, lay-offs of state employees. Any employees laid off as a result of this bill would be eligible for benefits under the Workforce Transition Act (WTA), the costs of which would be borne by the affected state agency. Such costs would be incurred under the WTA by the outsourcing agency even if the affected employees subsequently got jobs with the private-sector vendor providing the commercial activity.

For the average state employee (who is 46 years old, makes \$31,877 annually, and has 9.1 years of service), WTA benefits would total about \$20,042. (This figure includes the severance benefit under the WTA, payment for leave balances, and FICA payment, and is based on the assumption that the employee is not eligible for retirement, is a member of the Virginia Sickness and Disability Plan, has average leave balances, and is laid off on July 1, 2004).

As of December 31, 2003, the state work force included 70,488 classified state employees. If one percent of these workers were laid off as a result of this bill, the total severance cost would be \$14,109,568 (all funds).

This estimate does not include unemployment benefits, which would increase the costs of any layoffs resulting from this bill.

7. Budget amendment necessary: No

8. Fiscal implications: As written, the bill requires identification of activities that are “within five percent of the cost as performed by the private sector,” which implies that the cost could be more or less than the cost as performed by state government. The bill requires privatization of activities that are not within five percent of the cost as performed by the private sector. This means that, if the cost comparison reveals that the activity would cost five percent (or greater) more in the private sector, it would be privatized under the provisions of this bill.

9. Specific agency or political subdivisions affected: Commonwealth Competition Council, all Governor's Secretaries, all Executive Branch state agencies that report to a Secretary

10. Technical amendment necessary: If the intent of the legislation is to produce savings for state government, an amendment may be necessary to clarify that activities should be privatized only if the cost comparison reveals they would cost less in the private sector.

11. Other comments: None

Date: 2/12/04

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cc: Secretary of Administration