

Department of Planning and Budget 2004 Fiscal Impact Statement

1. Bill Number HB1201

House of Origin	<input type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input checked="" type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron Cline

3. Committee

4. Title Regulations for Procuring Nonprofessional Services

5. Summary/Purpose:

Requires purchasing agents within all departments, divisions, offices, or agencies of the Commonwealth to purchase services from commercial vendors if such service is listed as a commercial activity on the commercial activities list developed by the Commonwealth Competition Council. The purchasing agent may obtain the service from a noncommercial source if prior written notice is provided by the agent to the head of the department, division, or agency.

6. Fiscal impact: Indeterminate (See Item 8)

7. Budget amendment necessary: No

8. Fiscal implications: This proposal requires purchasing agents within the various state agencies and institutions of higher education to purchase services from commercial vendors if the services are on the commercial activities list developed by the Commonwealth Competition Council. However, the proposal also allows the purchasing agents to purchase services from noncommercial sources if prior written notice is given to the department head. (Purchasing agents can range from employees in an agency's procurement function to an employee authorized to use a state credit card. A noncommercial source is assumed to be a government activity that provides the service being purchased.)

The list of commercial activities prepared by the Commonwealth Competition Council is a very extensive list and covers almost any service that an agency would require to fulfill its mission. There are 87 different services listed under the Administrative/General Activities category. In addition, there are eight additional lists of activities related to specific functional categories such as health, information technology and transportation.

An assessment of the fiscal impact of the legislation must address the costs of studies to agencies to determine the best source of the service, potential Workforce Transition Act (WTA) costs if an in-house service is discontinued, potential savings from outsourcing, and costs to the Department of General Services (DGS) and the Commonwealth Competition Council (CCC) to monitor the program and provide technical assistance to the agencies.

Costs of studies. While the legislation does not specifically require a study to support the decision to accomplish a task in-house, it is assumed that an agency or department head will require detailed justification before making a decision to allow the purchasing agent to obtain the service from a noncommercial source. These costs could be substantial depending on the number of studies that would be needed. For example, if every agency has at least 15 services to be reviewed and each review takes at least 40 hours (or one week), the cost of this effort for the initial decision cycle would range from \$3,894,000 if done by the state employees to \$12,000,000 if accomplished by consultants. The proposal is silent as to the frequency a service area would have to be reviewed. Completing the studies in-house may not be possible for many small agencies and could be difficult for larger agencies because of the recent budget and manpower cutbacks.

Assumptions:

State Hourly Employee Rate: These studies would require an analyst capability and the salary is based on this assumption

State Employee Salary: \$50,000

Fringe: 35%

Hourly Rate: \$32.45

Consultant Hourly Rate: \$100

This is an estimate based on experience in hiring consultants for various functions. In general, consultant's charges will average at least this when contracted as an all inclusive hourly rate.

Time required for one study

15 Hours Data Collection

20 Hours Analysis

5 Hours Report and Decision-making

40 Total Hours

Number of studies per agency: 15

This estimate is based on the number of categories listed in the Commercial Activities list. There are 87 categories listed under General and Administrative Activities. It is estimated that approximately 10 percent or nine of these at a minimum would apply to every agency. There are eight other extensive functional category lists such as health, information technology, and transportation. It is conservatively estimated that a minimum of six of these services would apply to every agency.

Number of Agencies: 200

Savings from outsourcing. If a service that was provided in-house is outsourced, there are potential savings from the elimination of that activity. This savings is indeterminate since the number of activities that will be privatized or the amount of savings or costs that will be associated with the outsourcing action is not known. Government services are considered as labor-intensive. Unless a private vendor can provide additional capital investment to accomplish the service with less labor, the savings are questionable.

Separation Costs. There is also an indeterminate offsetting cost for the effects of the Workforce Transition Act (WTA). Any employee laid off as a result of this proposal would be eligible for benefits under WTA and the associated costs must be borne by the affected state agency. Such costs will be incurred under WTA by the outsourcing agency even if affected employees subsequently get 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 the payment for FICA, 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 state workers were laid off as a result of this proposal, the total severance cost will be \$14,109,568 (all funds).

Costs for monitoring the program. This proposal could result in additional workload to monitor the program and to provide technical guidance to agencies and departments as they conduct the cost analyses that will be used as a basis for insourcing or outsourcing decisions. These costs, which are indeterminate, will be incurred by the CCC, which currently has a staff of one, and DGS.

- 9. Specific agency or political subdivisions affected:** Department of General Services, Commonwealth Competition Council, and all state agencies and institutions of higher education

10. Technical amendment necessary: No

11. Other comments: None

Date: 02/20/04 / amk

Document: G\ 04 FISs\HB1201E.DOC

cc: Secretary of Administration