

Department of Planning and Budget 2004 Fiscal Impact Statement

1. Bill Number HB1201

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

2. Patron Cline

3. Committee

4. Title Regulations for Procuring Nonprofessional Services

5. Summary/Purpose:

Requires for single contracts for nonprofessional services not expected to exceed \$10,000 or for term contracts not expected to exceed \$100,000, that state public bodies procure such services from the private sector if such services are listed on the commercial activities list developed by the Commonwealth Competition Council. If the state public body determines in advance that such service from the private sector is not practicable or fiscally advantageous, such service may continue to be performed by the state public body.

6. Fiscal impact estimate is shown below and in Item 8.

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2003-04	0		
2004-05	\$80,000	1.00	GF
2005-06	\$80,000	1.00	GF
2006-07	\$80,000	1.00	GF
2007-08	\$80,000	1.00	GF
2008-09	\$80,000	1.00	GF
2009-10	\$80,000	1.00	GF

7. Budget amendment necessary: Yes, Item 62

8. Fiscal implications: This proposal requires state public bodies to procure nonprofessional services from the private sector if such services are listed on the commercial activities list developed by the Commonwealth Competition Council and if single contracts are not expected to exceed \$10,000 or term contracts are not expected to exceed \$100,000. The bill exempts institutions of higher education. The bill approaches this outsourcing from an agency perspective rather than from an enterprise-wide perspective. While it gives a state agency the option to continue the services in-house (if justified in advance as not practicable or fiscally advantageous), it does not necessarily direct the agencies to outsource services. Additionally, it is unclear as to what to do if a service costs less than \$10,000 in one agency and over \$100,000 in another.

The proposal will have a fiscal impact of \$80,000 from the general fund to fund one additional position for the Commonwealth Competition Council (CCC). (These costs are shown in Item 6 above.) The position will be needed to maintain the commercial activities list and provide technical assistance as agencies determine whether or not to outsource. The list of commercial activities prepared by the CCC is very extensive 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. When the list was originally developed, the council had a staff of three. Currently, it has a staff of one.

While there is a question as to whether the legislation is mandating any additional outsourcing, the following fiscal impact assumes that additional outsourcing actions must be taken. Under these conditions, 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, maintain the commercial activities list, 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 not to outsource. These costs could be substantial depending on the number of studies that would be needed. For example, if each review takes at least 40 hours (or one week), the cost of one study would range from \$1,298 if done by the state employees to \$4,000 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 Agencies (estimated without higher education): 120

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 any 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 DGS and CCC.

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

10. Technical amendment necessary: No

11. Other comments: None

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cc: Secretary of Administration