

**State of Wisconsin
Cost Benefit Analysis Methodology
Form DOA-3821a Project Summary
Form DOA-3821b Financial Information**

**Do not use or follow.
Revised version to
follow shortly.**

...s a methodology to assist agencies in analyzing
...ts for contracting out. This methodology will
...he cost differential between alternatives. In

...able;

...curate basis for decisions; and

...ossible, that is, avoid unnecessary calculations.

...e summarized on Forms DOA-3821a and DOA-
3821b. Instructions follow to assist in carrying out the cost analysis and
preparing adequate documentation.

To perform the complete Cost Benefit Analysis, please complete **DOA-3821a CBA—Project Summary (Word)** and **DOA-3821b CBA—Financial Information (Excel)**.

Route both documents for approval within your agency as defined by your agency policy.

Submit approved documents to the Deputy Director of the State Bureau of Procurement and appropriate Union Representatives.

DOA and attached entities must also complete **DOA-3820 CBA Review Approval** and route as specified in that document.

You must also provide the union notification letter to the union as required in PRO-I-9 unless you are buying off a statewide contract. If you are using a statewide contract, please provide the union representatives with copies of DOA-3821A and DOA-3821B.

Cost Benefit Analysis—Project Summary Form DOA-3821a

Please note this form is designed to expand as information is entered.

Please enter the following information at the top of the form.

Department:

Date:

Agency Tracking Number:

Contact:

Contact Phone Number:

Project/Program Title:

Written Description of Factors

1. Service Overview-Rationale for Contracting Out

Provide a written justification for the request in clear, non-technical language that can be understood by persons who may not be directly involved in or familiar with the proposed services, with all acronyms fully defined.

2. Market Strength

Please describe the availability in the market of vendors that can perform this service. How does the labor market impact the recruiting and retention of employees?

3. Quality and Nature of Services Required

Provide a description of the proposed service to be performed, a list of items to be delivered, any specific conditions to be required of the contractor, and how the agency will ensure that the contractor will provide services and quality as promised without financial loss to the State. Is the work a core service of state government?

4. Risk Factors

Please describe the controls and risk management that will be in place in the event a private firm may fail to provide the service it has guaranteed or reduce services if financial losses occur? How will we ensure that confidential information will be kept secure?

5. Timelines

Provide schedules and timetables for the proposed service. Provide a statement indicating whether the proposed service is a short-term project or a long-term need for the agency. What controls will be in place to ensure the timeliness of project milestones?

6. Technical Expertise

Describe whether agency employees have the capacity to perform the proposed service. Describe whether the agency employees have the expertise to perform the proposed service.

7. Legal Barriers

Please describe any federal mandates, state statutes, and administrative rules that dictate the service level which government must perform. Would contracting out affect access of services or treatment?

8. Alternatives to Contracting Out

What alternatives have been considered? What research has been conducted to determine if this service can be performed by another agency or the University?

Cost Benefit Analysis—Financial Information Form DOA-3821b

Since the focus of the analysis is on the cost differential between alternatives, it is not necessary to consider costs that are demonstrably the same across alternatives. However, the agency must clearly state its assumptions as to what are common to all alternatives and identify these costs as excluded from the analysis.

Example: An agency is evaluating contracting out compared to state employee operations of an information center that mail out state publications. The state publications would be provided by the state, free of charge to the contractor for mailing. The contractor would provide personnel, facility, equipment, etc. The cost to the state of providing the publications to be mailed is the same regardless of whether a state or contract employee is performing the mailing. Because it is a common cost that will not vary across alternatives, it should be excluded from the analysis. The cost of personnel, facilities, equipment, etc., for each alternative would remain pertinent and should be included in the analysis.

Completing the Cost Benefit Analysis—Financial Information Worksheet

Only enter information in the *shaded areas* of the worksheet. **Please do not alter formulas in red cells.** If more room is needed for any line number, insert new rows in the middle of the shaded area so the formulas are still valid. The Cost Benefit Analysis Summary at the end is populated with the totals from each of the previous sections.

Please enter the following information at the top of the form.

Department:

Date:

Agency Tracking Number:

Contact:

Phone Number:

Project/Program Title:

The following information provides line-by-line guidelines for completing the worksheet, as well as guidance on the type of supporting detail necessary to produce the data. Since the worksheet is a summary document, it is expected that agencies will attach copies of the detailed data to support the information contained in their completed worksheet.

Length of Contract

When the length of the contract is for less than a full year, prorate all cost elements except one-time costs over the number of months of the contract for the first year. Unless otherwise indicated by the agency, the worksheet assumes reported costs are based on annual costs.

The guidelines that follow are divided into three sections:

- Part One-State Employee Costs
- Part Two-Contracting Out Costs
- Part Three-Cost Benefit Analysis Summary

Part One: State Employee Costs

Line 1 (Wages and Salaries)

Explain the State Employee FTE/LTE assumptions that are included in the worksheet numbers below. This line would include all salary involved. Review any annual increase with your Budget Office. Use the Appointment Midpoint for the rate. (See personnel for this rate.)

This line includes all wage and salary costs, including overtime or other special pay, projected for the performance of the function under study. To determine personnel costs, two steps are required: development of a staffing estimate and determination of wage and salary costs based upon that estimate.

The staffing estimate may be based upon current staffing, if current staffing would be appropriate in light of future workload. Alternatively, the staffing estimate may vary from current staffing due to changes in workload or to business process improvements. For new functions or functions currently under contract, agencies should project staffing.

When estimating salaries and wages, consider whether the employees will be working exclusively on this service or if it will be a portion of the duties, and plan accordingly. Also, include the supervisory costs based on the number of full time equivalents (FTEs). Use the Appointment Midpoint for the rate. (See personnel for this rate.)

Agencies are encouraged to consider reengineering or other cost improvement opportunities in developing their projected cost of state employees. However, any deviation from current staffing should be carefully documented, with supporting rationale.

If state employees currently perform the services proposed for contracting out, the wage data used for this component of cost should be based on the pay data for the current state employees (modified, if necessary, to reflect future changes in workload). If the contractual services involve duties not currently performed by current staff, it is initially necessary to also determine and document the number of FTEs, by classification, necessary to perform the work.

How to enter information for Line 1 Part A

- Enter Job Classifications
- Enter Appointment Midpoint amount
- Enter number of FTEs needed
- Enter estimated annual hours per FTE

The dollars will automatically be calculated for years 1 through 3. If project carries over into years 4 and 5, copy formulas in **shaded area** from year 3 into columns for years 4 and 5.

Totals for each year are calculated automatically.

Line 1 Part B will automatically calculate a Leave Adjustment Factor. This factor takes into account the amount of paid leave the average state worker takes in a year as determined by OSER.

Rates of pay published in the current *Office of State Employment Relations Compensation Plan* provide appropriate wage ranges by classification for computing this cost. Total wage costs are determined by multiplying the rate of pay by the number of hours of service to be provided for each FTE at the appropriate range of pay. Supporting documentation should include the number of FTEs, classifications, assumed hourly wage, and annual (or other period) cost.

Line 2 (Fringe Benefits)

Fringes are calculated at appropriate % of wages. Contact your budget office for the appropriate rate.

Enter the benefit rate for each year in the **shaded areas** on this line. The benefit amount will be calculated automatically.

Line 3 (Annual State Employee Administrative Overhead Costs)

Contact your budget office for the appropriate amounts. The costs shown can be individually removed if the cost will be the same for a contractor as a state employee, i.e., the contractor will sit in a state-owned space and will be provided space, telephone and computer. Explain any assumptions used.

These are costs not directly related to the operation of a specific program but necessary to support the functioning of the program. These include, but are not limited to: information technology desktop support, insurance and other risk premiums, space, agency overhead charges, State Controller's Office charges, phones, training, general supplies and other costs as appropriate (please explain). Standard overhead estimates, developed by agencies for budgeting purposes, may be used for this section.

If additional lines are needed, insert lines within the **shaded area** and the totals will be automatically calculated.

In the **shaded area** provided, enter the number of employees assumed for line 1. The total will be automatically calculated.

Line 4 (Other Operating Costs)

Contact your budget office for the appropriate costs: These costs would include other equipment, vehicles, building costs and other costs that would be associated with bringing the services in-house or continuing to perform the services in-house. Explain all rationale for including costs in this area.

If additional lines are needed, insert lines within the **shaded area** and the totals will be automatically calculated.

Operation or production costs that are costs to the program and not included in administrative overhead need to be taken into consideration and included here. This would include significant new costs for the program, such as, facilities costs, equipment, and production supplies that are specific to the project.

A. Facilities/Space Costs

If state space will be furnished to a contractor, the cost of renting or leasing this space should be the same regardless of whether a state employee or contractor personnel occupy it. Consequently, state-furnished space is treated as a common cost, and not included in the analysis.

If space will not be furnished to a contractor, there are a number of considerations to be addressed in computing space cost. If the facility is currently state-owned or leased, it is only necessary to ascertain the actual cost of the rent, or the state assigned rate for the facility (typically available on a cost per square foot rate basis). In the latter circumstance it is necessary to compute the total cost by multiplying the square footage by the rate.

In the circumstance that a new building space would need to be constructed or purchased, or major renovation is needed, the agency should discuss this with the Division of State Facilities to come up with an estimated annualized cost for the structure needed.

B. Equipment and Other Assets

Equipment lease or rental costs that would not continue in the event of contract performance or would constitute a new cost, over \$5,000, should be included in Line 4. This could include any vehicles, machinery, tools, raw materials, subassemblies and components, and office furniture. If state equipment will be furnished to a contractor, the lease or rental fees are a common cost and are not included in the analysis.

Depending on the type of program and the accounting standards used by the agency, equipment costs may be shown as a one-time cost in the first year or may be amortized over the asset life. For example, a copier costing \$10,000 and an asset life of five years would show annual costs of \$2,000 per year. The supporting documentation should clearly outline major equipment acquisitions and the accounting method used to attribute those costs to the length of the contract.

Line 5 This is the Total State Employee Costs (Automatic sum of lines 1 through 4) and is included on Part Three automatically.

Do not enter any information on this line.

This line is calculated automatically from information entered in Part One, Line 1 through Line 4.

Part Two: Contracting Out Costs

Line 6 (Contract Price)

Please list the positions being requested from vendors, hourly rate, and number of positions and estimated annual hours or enter total contract cost as one line item. If number of positions requested or annual hours are different from Line 1 above, you must explain the variances.

If additional lines are needed, insert lines within the **shaded area** and the totals will be automatically calculated.

Line 6 shows the total disbursement amount that the agency wishes to have authorized for payment of contractual services. The basis for the proposed amount should be documented; for example, how were contractor labor rates or unit costs derived. Every effort should be made to incorporate all relevant costs, to include wage and salary, fringe benefits, facilities, equipment, all direct and indirect costs, that is, a comparable set of costs to those considered under in-house performance.

Line 7 (Contract Monitoring and Contract Creation Costs)

Contact your Budget Office for Benefit and overhead amounts to include the costs for staff for procuring, negotiating and administrating the vendor contract.

This includes the cost of contract monitoring, creation and administration, that is, the costs for all activities that take place from the time a decision is made to contract out until the contract is fully executed and final payment is made. These costs include: procurement, contract negotiations, contract award, the processing of amendments and change orders, the resolution of disputes, the processing of contractor invoices, and contract monitoring and evaluation. This would also include the salary, fringe benefits, and services and supplies needed for the contract administrator.

Indicate the Job Classification, Appointment Midpoint Number requested and estimated Annual Hours. The amounts for each year are not automatically calculated in this section, so please drop in the amounts for each year.

If additional lines are needed, insert lines within the **shaded area** and the totals will be automatically calculated.

Line 8 (One-Time Conversion Costs)

Include estimated amounts to convert from State Operations to Contracted Services (i.e., data conversions, training, sale of State property, etc.). Note: This line item may also be included in "other operating" costs section, since any new service would have to be started up within the State as well.

One-time conversion costs are incurred when converting a service from state employees to contracting out. Examples of one-time conversion costs include personnel-related costs, material-related costs, and other costs. Personnel costs related to those costs that an agency will incur as a result of transitioning from current classified employees to the use of contractual services. Costs to be considered include potential unemployment obligations. Payouts for sick and annual leave are not included, as these are financial obligations that exist for the agency whether or not employees are displaced, or contractual services utilized. Material-related costs are those associated with the preparation and transfer of government property or equipment to be made available to a contractor for use in providing a target service. If these items are sold rather than supplied to the contractor, they may be considered benefits or gains, in which case these benefits should be deducted from these costs. The other costs are those that may be specific to the project, such as, training of the staff or penalty fees associated with terminating leases or rental agreements. When substantial one-time conversion costs are involved, these costs should be amortized over the length of the contract. The front-end-loading of substantial one-time conversion costs into one year can skew cost comparisons between state employees and contracting out in favor of the state employees.

If additional lines are needed, insert lines within the **shaded area** and the totals will be automatically calculated.

Line 9 (Total Contract Costs) Do not enter any information on this line.

This line is calculated automatically from information entered in Part Two, Line 6 through Line 8.

Part Three: Cost Benefit Analysis Summary

Do not enter any information in Part Three.

The numbers in the Cost Benefit Analysis Summary contain Totals from Part One and Part Two above. PLEASE REVIEW and make any desired changes in Part One or Part Two.