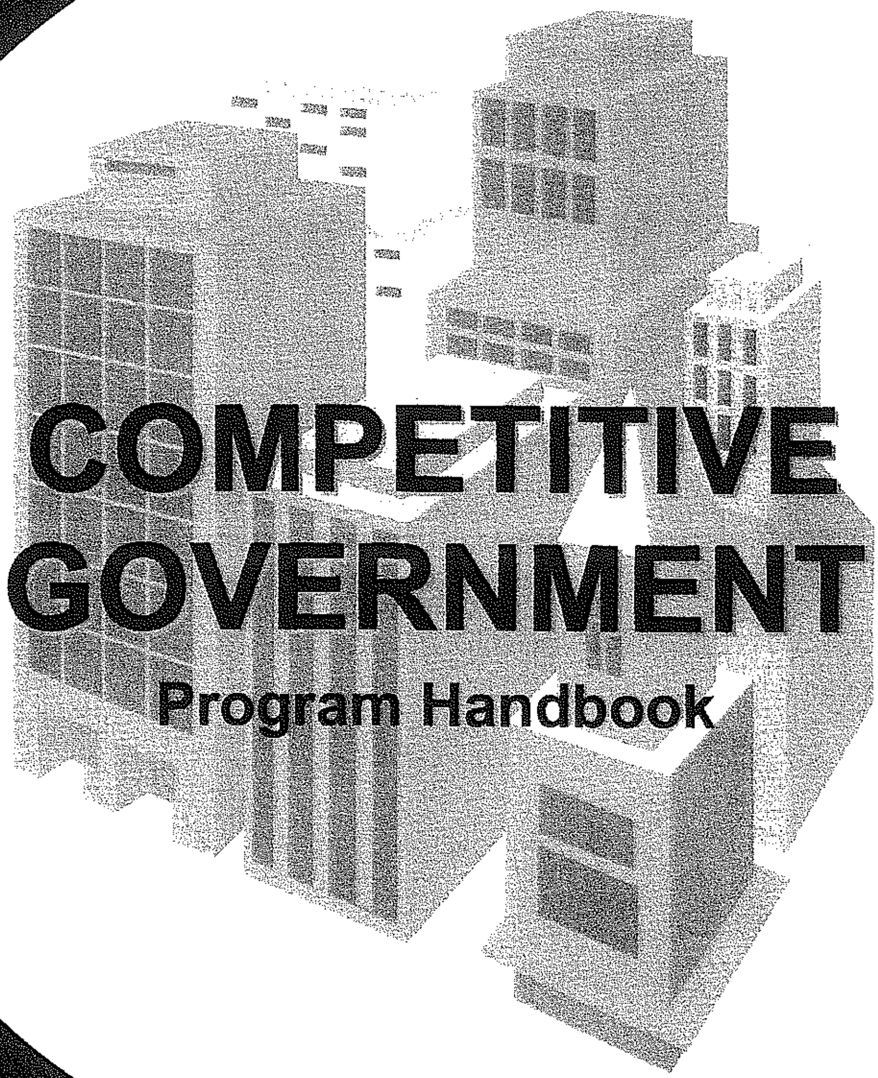
State of Arizona



COMPETITIVE GOVERNMENT

Program Handbook

Governor's Office for Excellence in Government
www.governor.state.az.us/excellence
July 2000

STATE OF ARIZONA

Competitive Government Handbook

Competitive Government Handbook, Version 4
A copy of this handbook and all forms are available on the Governor's Office for Excellence in Government website:
www.governor.state.az.us/excellence
Alternative formats of this handbook may be obtained by contacting OEG at 602-542-7546.

How Do You Use This Handbook?

This handbook is designed to help agencies complete the Competitive Government process and is divided into chapters based on the broad program steps. Each chapter contains step-by-step instructions for completing the individual tasks in that area. Additional appendices are also included to provide tools and resources you will need along the way.

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Chapter 1

I. Program Overview

What is Competitive Government?

In today's world, constituents expect government to be more responsive to their requests for smaller government, lower taxes and increased service quality. These requirements, coupled with Arizona's population growth rate, have created significant challenges for our state government. How does state government meet the demands of a growing constituent base, given the State's limited resources? Introducing competition into the service delivery formula is one proven strategy.

The Competitive Government Program, created in 1996 by the Arizona Legislature, strives to create an environment in the public sector that encourages open and fair competition, thereby fostering cost effective and efficient change. Competitive Government is a management tool that enables state agencies to better meet the needs of their customers by lowering costs, improving service, and ultimately re-focusing the State on those services that only the government should provide. One of the critical benefits of this process is that it brings an agency's focus inward and highlights ways it can improve operations and save money.

The Office for Excellence in Government (OEG), which reports directly to the Governor, implements and manages this program. OEG, with the assistance of state agencies, is required to identify functions in state government that are appropriate for the Competitive Government Program.

Note

Arizona Revised Statutes §§ 41-2751-2754 and 41-2771-2773 contain information regarding the Competitive Government Program, operating principles and other guidelines.

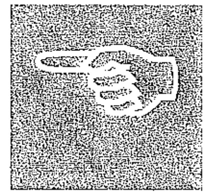
The Competitive Government Program allows state agencies to increase their ability to meet customer needs. The focus of the program is NOT solely the outsourcing of services; rather, the emphasis is on more efficient operations, whether provided by the state or by a private vendor. Implementing Competitive Government in a fair and consistent manner will lead to:

What are the benefits of Competitive Government?

- A COMPETITIVE ENVIRONMENT - A competitive environment provides an atmosphere in which employees, either public or private, are motivated to improve services in response to competition.
- INCREASED FLEXIBILITY - Outsourcing provides officials with greater flexibility in their efforts to meet program and customer needs.
- COST SAVINGS - Introducing competition into the marketplace requires all parties to continuously guarantee cost savings.
- IMPROVED SERVICE QUALITY - Well-designed contracts, specific performance standards and comprehensive monitoring result in increased quality. State agencies and private sector contractors will strive to meet agreed upon standards in their efforts to maintain their business with the State.
- INCREASED EFFICIENCY AND INNOVATION - Competition requires all parties to dedicate themselves to developing and implementing new ways of doing business, resulting in continuous service delivery improvement.
- OPTIMIZATION OF GOVERNMENT - Competition optimizes the use of capital and human resources in both public and private sector organizations.

Appendix B lists some of the services and delivery methods privatized elsewhere that may provide opportunities for realizing some of these benefits using the Competitive Government process in Arizona. (See page X-1.)

Does this mean that all State Government should be privatized?



Definitely not! For many reasons, State Government must continue to provide some services. In some instances, the state is legally required to provide the service. In others, competition is not viable for a number of other reasons. Competitive Government simply provides a method for determining which services might be appropriate for alternate service delivery methods, and for implementing, monitoring, and evaluating the performance of the service provider.

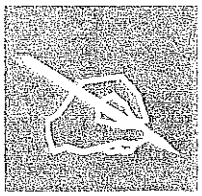
When is Competitive Government Most Successful?

The introduction of competition is most successful when the service under study has certain attributes. The following are good indicators of potential success:

Strong Marketplace	A number of potential suppliers should already exist. Without a competitive marketplace, the creation of private sector monopolies is inevitable, and expected improvements may not occur. The larger the number of potential suppliers, the greater the potential improvement and savings.
Potential for Enhanced Quality	Competition should result in increased quality to the customer. The projected quality of service should meet or exceed the current requirements.
Assurance of Continued Government Control	Opening a service or program to competition does not mean the State gives up responsibility for the service. Competitive efforts are more successful when the government can maintain an appropriate level of oversight through the use of performance measures and reporting requirements.
Low Risk of Failure	Opening a service to competition should only be attempted when the risk of failure is small or the State has failed in its mission to provide the service in a manner, and at a cost, that are acceptable to the customer.
Limited Legal, Political, or Practical Barriers	Competition is most successful in those areas in which competition is not prohibited by statute, stakeholders are made aware of the benefits, and there is a sense of urgency to improve processes.
Low or Minimal Impact on State Employees	Regardless of whether privatization occurs or not, state employees may be affected. Obviously, if a function is privatized some personnel changes are likely.

An early step in the process is identifying appropriate services, or "Target Functions," that may benefit from the introduction of competition. The foregoing factors are important considerations. To help you in identifying possible Target Functions, see Appendix B (page VIII-1).

What are the Program Operating Principles?



General Principles

The Competitive Government Program has been developed to standardize state agencies' approach to competition, and to provide a sound methodology for potential privatization. The following principles form the basis for the program:

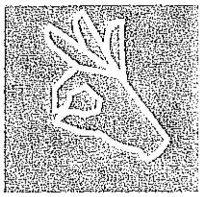
- The Competitive Government process applies to any potential privatization of a service/program, using state personnel or resources, with at least five FTE's (full time equivalents) and a $500,000 budget. Services/programs that do not meet these thresholds can go through a simpler process to determine whether or not they should be privatized (more information on the abbreviated process is available from OEG).

Note

State statutes exempt some services or agencies. Please refer to A.R.S. §§ 41-2752-3.

- The Competitive Government Program is not part of the state procurement process, but merely a method by which to plan and estimate the impact of a potential privatization prior to making a decision about outsourcing.
- The Competitive Government process is designed to reduce costs while maintaining or improving service and performance levels.
- The Competitive Government process is not to be used by agencies to re-negotiate approved budgets.
- Agencies should minimize, where possible, involuntary separation of state employees by using natural attrition rates, temporary hires, "Right of First Refusal" contract clauses, service credit buyouts, and inter/intra-agency transfers.
- Agencies have the right to compete against outside contractors via the agency's in-house cost estimate.

Guaranteeing Fairness



The Competitive Government Program identifies services that have the potential for outsourcing or privatization and provides standard processes for competition for the service delivery. A key element in the success of the program is ensuring the fairness of this competition. The policy we use in State government is called "**competitive neutrality.**"

What is "Competitive Neutrality"?

The Reason Public Policy Institute describes competitive neutrality as "a set of policies and legal arrangements that ensure that all organizations and individuals – public, private and nonprofit – are treated in an equal manner in the bidding process between public and private bidders."

One of the first steps in achieving competitive neutrality in managed competition is assuring neutrality in the bidding process. The following steps help to ensure that such neutrality exists:

- Calculating in-house service costs completely and accurately
- Decreasing, or at least making transparent, subsidies to public sector service providers
- Eliminating performance bond requirements for private vendors where possible
- Valuing any risk allocated to the private sector in the bidding process and adding it to the public bid (e.g., the cost of insurance for private vendors)
- Creating a formal complaint process for private firms that claim the bidding process was unfair.
- Seeking to minimize employment, wage, and benefit mandates.

If all of these steps are successfully implemented, there will be a more a level playing field between the public and private sectors and increased chances for successful managed competition.

How Does the Program Work?

The Competitive Government Program was designed to help agencies identify potential opportunities for outsourcing services to the private sector, and to determine whether the state or the private sector is the more cost-effective provider of a specific service. We can divide the process into five broad steps:

1. Identifying Opportunities
2. Preparing for Competition
3. Determining In-House Costs
4. Decision Making
5. Monitoring Performance

The table on the following page provides more detail on the tasks involved within each step.

IDENTIFYING OPPORTUNITIES	PREPARING FOR COMPETITION	DETERMINING IN-HOUSE COSTS	DECISION MAKING	MONITORING PERFORMANCE
▪ Identify Target Functions ▪ Form a Competition Task Team ▪ Conduct a Qualitative Analysis on specific services	▪ Draft the Scope of Work ▪ Develop Personnel Plan to address any personnel transfer/transition issues created by the potential privatization of the service ▪ Develop Transition Plan to move delivery from the public sector to the private sector should that be the ultimate decision ▪ Develop Performance Monitoring Plan to address how provider will be monitored	▪ Determine in-house (agency) costs for providing the service to serve as the agency's 'bid'	▪ Draft and issue a Request for Proposal(s) (RFP) to private sector vendors ▪ Evaluate private sector proposals and select the most advantageous ▪ Compare agency costs to the costs of the most advantageous bidder (Quantitative Analysis) ▪ Select future provider	▪ Conduct quarterly and annual reviews

Reporting

OEG's role is to assist each agency in selecting a target function, determining the work plan, and reviewing the analyses and in-house cost data. By keeping in touch throughout the process, OEG may be able to provide examples of comparable projects or ideas to either simplify the work or make it more meaningful. Because of this, specific reporting requirements exist throughout the process.

What are the Agency Reporting Requirements?

There are eight key reporting milestones:

1. As the starting point for the project, the agency submits a **Target Function** letter or memo identifying the service or program the agency is considering for privatization.

2. The **Qualitative Analysis** letter or memo, which includes the agency's assessment of the target function based on the eight criteria listed in the handbook, should follow approximately two weeks later. (See page II-5.)

3. Between 6 and 10 weeks after the qualitative analysis, the agency completes and delivers the **Scope of Work** packet. This contains a detailed description of the service or program analyzed plus three critical plans: the **Personnel Plan, Transition Plan and Performance Monitoring Plan.** (See Chapter 3, page III-1.)

4. Around the 12th week, the agency submits the **Target Function** packet. This includes the revised Scope of Work, all in-house cost information plus supporting documentation, and a cover letter from the agency director. (See Chapter 4, page IV-1.)

5. Throughout the following six weeks, the agency works closely with procurement to release the **Request for Proposal** packet. OEG needs to receive a copy of the RFP.

6. The agency (and other appropriate state personnel) evaluates responses and selects an offeror according to the State Procurement Code. The agency then completes the **Cost Comparison Model,** submitting the results to OEG, the State Procurement Office (SPO) or their agency procurement office, and the agency director. (See Chapter 5, page V-1.)

7. When the agency reaches a decision to outsource or retain the service, it submits the **Summary Decision Packet** to OEG. This contains a letter from the agency director explaining the decision and supporting documentation, including Schedule A "Summary of Relevant Total Costs" (see page X-3).

8. Over the next three to five years (depending on the length of contract award), OEG will request performance and cost information on the target function from the agency.

The table on the next page shows each of these reporting milestones and the approximate timeframe for submission. Appendix C contains a Planning and Document Schedule to help you further identify each of the steps in the process and when information should be submitted to OEG (see page IX-2).

Important Note

If you choose to stop the process after the Qualitative Analysis or at any other point before you complete the public-private cost comparison, you must provide a detailed, written justification to the Office for Excellence.

REPORTING MILESTONES

Week 1	Week 5	Week 10	Week 15	Week 20	Ongoing

IDENTIFYING OPPORTUNITIES

- Target Function Letter
- Qualitative Analysis Letter

PREPARING FOR COMPETITION

- Scope of Work Packet

DETERMINING IN-HOUSE COSTS

- Target Function Packet

DECISION MAKING

- Request for Proposal
- Cost Comparison Model
- Summary Decision Packet

MONITORING PERFORMANCE

- Periodic Performance Measures & Cost Model Information

NOTES

Chapter 2

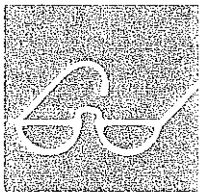
II. Identifying Opportunities

Government is in the service business. Each state agency provides services directly to external customers (general public) and/or to internal customers (other government agencies or employees within the agency). Within many agencies, there are often a number of these services or functions that could be provided by the private sector. The first charge in the Competitive Government process involves determining what services or functions might be good candidates for competition. Specifically, this involves three tasks:

1. Identify Target Functions
2. Form a Competition Task Team
3. Conduct a Qualitative Analysis on Specific Services

This chapter covers each of these tasks in more detail.

Step 1: Identify Target Functions



The first task in the process is to identify which of the agency services or functions can be considered a "Target Function." For the purposes of this handbook, Target Functions are those services, programs, and/or specific functions within an agency that may benefit from the introduction of competition.

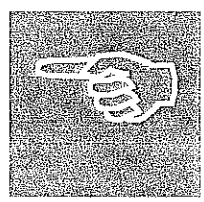
Target Functions generally have one or more of the following attributes:

What makes a good Target Function?

- Must not be central to the agency mission
- Private sector provider interest
- High level of customer dissatisfaction
- History of successful privatization by other government entities
- Cost and/or quality problems

Think of all the services provided by someone in your agency. Consider not only those services provided to internal customers, but also those provided to external customers. Then consider the attributes outlined above and identify which of those services fit the criteria. You may also want to refer to the previous discussion of when Competitive Government is most successful on page I-4.

Finally, you should ask yourself the following:



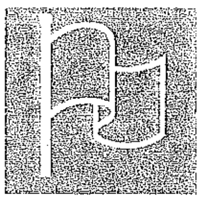
- **Is this a Core Business Function?**
- **Is providing this function/service a key reason why the agency exists?**

If the answer is "Yes," then you probably should not consider the service or function as a candidate for a Target Function. If, however, the answer is "No," then the service is probably an appropriate Target Function.

How else can I identify Target Functions?

As an additional resource, Appendix B (see page VIII-1) lists some of the services and delivery methods that may provide you with more ideas. The Office for Excellence in Government has identified services that have been successfully privatized by state agencies in Arizona and elsewhere. OEG will gladly help you to identify specific opportunities for competition.

Reporting Milestone



Submit a **Target Function** letter or memo to OEG identifying the service or program you are considering for privatization. This letter should briefly describe the program or service plus list the function's budget and the number of FTEs currently performing the function. Make sure to identify if the figure quoted identifies costs solely related to the Target Function (direct costs) or also takes into consideration the program's indirect costs.

Step 2: Form a Competition Task Team

Once you have identified a list of Target Functions, you will want to form a Competition Task Team. The Competition Task Team (CTT) will process the designated Target Function through the remaining steps of the Competitive Government process.

Who should be on the Competition Task Team?

CTT members should possess practical experience in the service delivery systems of the agency. Ideally, you should include representatives from the following areas:

- Budget/Finance
- Procurement
- Human Resources
- The Specified Target Function
- Customer Representative (if appropriate)

Because the process may ultimately affect many areas, it is quite helpful to have members with experience in each of these functions.

The Resource Member

Once formed, the CTT needs to designate a member to fill the role of "Resource Member." This individual has two critical tasks.

1. To sit on the RFP evaluation committee as an observer
2. To assume the responsibility, with the assistance of OEG, for completing the Outside Provider Costs portion of the Cost Comparison Model

Note

In order to perform these duties, the Resource member will be required to sign a "**Conflict of Interest and Confidentiality Statement**." This document legally binds the Resource Member from disclosing any offeror proposal specifics. It also requires the individual to disclose any actual or potential conflicts of interest. This step helps to ensure that competitive neutrality is maintained throughout the evaluation process.

Step 3: Conduct a Qualitative Analysis

As its name suggests, the Qualitative Analysis walks the agency through a series of qualitative (rather than quantitative) factors that may make a Target Function an especially good or bad candidate for competition and outsourcing. These factors include, but are not limited to, the interest level and number of potential private-sector providers, legal barriers to competition and outsourcing, and the potential impact on public employees. The Qualitative Analysis will help you identify the best potential opportunities for competition.

What elements are included in the Qualitative Analysis?

The Qualitative Analysis consists of eight Competitive Government Profiles, a Summary Matrix, and a Rationale Sheet. The Competitive Government Profiles examine environmental factors that could affect the agency's ability to introduce competition or to privatize. The eight factors requiring analysis include:

1. Strength of Competitive Market
2. Control
3. Legal Barriers
4. Impact on Public Employees
5. Quality of Service
6. Risk
7. Political Resistance
8. Resources

Appendix C contains samples of each of the Competitive Government Profile Forms, the Summary Matrix, and Rationale Sheet. (See page IX-1.)

Completing the Profile Forms

An example of Profile #1 – Strength of the Competitive Market is shown below:

COMPETITIVE GOVERNMENT PROFILE FORM

1. Strength of Competitive Market

-6 ________ -4 ________ -2 ________ 0 ________ +2 ________ +4 ________ +6

Low Potential — High Potential

Definition: Market Strength denotes the commercial characteristics of the Target Function. Private sector interest and ability to provide the service are key components.

Questions to Be Considered:

	Yes	No
• Are there multiple capable contractors available in the private sector?	+	-
• Are there multiple interested contractors?	+	-
• Is the nature of the financial commitment so large or small that potential contractors may not be interested?	-	+
• Will contracting out result in a private sector monopoly?	-	+
• Is the nature of the Target Function highly complex?	-	+
• Are the current state wages in this area, compared to the private sector or other state jobs, causing high personnel turnover?	+	-

Mitigation Suggestions If The Market Strength Does Not Promote Competition

- Share the responsibility for provision of the service among contractors or between the government agency and a single contractor.
- Expand the number of contractors to decrease the chance of a monopoly forming.
- Write RFPs to ensure multiple contractors and competition exists.
- Determine if long-term contracts can be written to facilitate recoveries of investments for contractors.
- Break down the size of the service into smaller projects. In high-risk services, pilot project contracts may be desirable before full-scale privatization is attempted.

Each member of the CTT should follow these steps individually to complete each of the Competitive Government Profile Forms:

1. Review the definition of the environmental factor.

2. Considering the identified service, answer each of the questions with a "Yes" or "No." You may want to circle the "plus" or "minus" for each question, based on your answer.

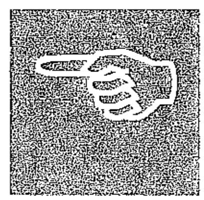
3. Total the number of "pluses" and "minuses" and add them together. For example:

   - 4 "pluses" and 2 "minuses" would result in a score of +2 (a moderate candidate for further review);

   - 5 "minuses" and 1 "plus" equals a -4 (a factor that could complicate potential privatization).

4. Circle your total on the scale at the top of the page

5. Repeat these steps using each of the eight Competitive Government Profile Forms.



What if the overall rating for a factor is negative?
If the overall rating is negative or close to zero, and you still wish to pursue competition, you can refer to the "Suggestions for Mitigation" found at the bottom of each form. These strategies can help you in redefining assumptions to make competition more feasible.

Completing the Summary Matrix

Once each CTT member has completed each of the Profile Forms, reconvene the CTT to arrive at a consensus for how the group will rate and weight each factor. These are essential steps to complete the Profile Summary Matrix. This matrix condenses the data gathered to a graphic representation and numeric score. A sample of the Summary Matrix is shown below:

PROFILE SUMMARY MATRIX

PROFILE	LOW POTENTIAL (PRO GOVERNMENT)			HIGH POTENTIAL (PRO PRIVATE)			WEIGHT 1 = low 4 = high	WEIGHTED SCORE
1. STRENGTH OF COMPETITIVE MARKET	-6	-4	-2	+2	+4	+6		
2. QUALITY OF SERVICE	-6	-4	-2	+2	+4	+6		
3. CONTROL	-6	-4	-2	+2	+4	+6		
4. RISK	-6	-4	-2	+2	+4	+6		
5. LEGAL BARRIERS	-6	-4	-2	+2	+4	+6		
6. POLITICAL RESISTANCE	-6	-4	-2	+2	+4	+6		
7. IMPACT ON EMPLOYEES	-6	-4	-2	+2	+4	+6		
8. RESOURCES	-6	-4	-2	+2	+4	+6		
				TOTAL WEIGHTED SCORE				

The Summary Matrix provides two scoring methods: the Profile Line and the Weighted Score. While these methods are still somewhat subjective, they will provide a good idea of whether the Target Function is a good candidate for competition.

Complete and Interpret the Profile Line

1. Through discussion of each member's individual rating of each factor, arrive at a group decision of that factor's potential for privatization and circle the appropriate number on the Profile Summary Matrix Form.

2. Repeat these steps using each of the eight Competitive Government Profile factors.

3. Then, draw a line that connects all of the ratings. A sample is shown on the next page.

If the majority of the line rests on the right hand side of the Summary Matrix, the Target Function may be a good choice for competition. However, if most of the line lies on the left, the service is probably best suited to remain with the agency.

The Summary Matrix below shows an example of the Profile Line for one Target Function. Note that the majority of the line lies in the right column; therefore, this Target Function shows a high potential for successful competition.

PROFILE	LOW POTENTIAL (PRO GOVERNMENT)	HIGH POTENTIAL (PRO PRIVATE)	WEIGHT 1 = low 4 = high	WEIGHTED SCORE
1. STRENGTH OF COMPETITIVE MARKET	-3 -2 -1	+1 +2 +3		
2. QUALITY OF SERVICE	-3 -2 -1	+1 +2 +3		
3. CONTROL	-3 -2 -1	+1 +2 +3		
4. RISK	-3 -2 -1	+1 +2 +3		
5. LEGAL BARRIERS	-3 -2 -1	+1 +2 +3		
6. POLITICAL RESISTANCE	-3 -2 -1	+1 +2 +3		
7. IMPACT ON EMPLOYEES	-3 -2 -1	+1 +2 +3		
8. RESOURCES	-3 -2 -1	+1 +2 +3		
			TOTAL WEIGHTED SCORE	

Complete and Interpret the Weighted Score

Once you have completed the profile line, the next step is to complete the weighted score for each factor and to determine a total weighted score for the Target Function.

Why do we do a second score?

The Profile Line provides a graphical representation of the competition potential for the Target Function. However, this method considers each environmental factor as equally important. In reality, each project is unique. The relative importance of each factor will differ. Weighing the qualitative data will provide a more realistic score based on the relative importance of each of the factors.

1. Consider the relative importance of each of the environmental factors to the Target Function. You may want to review the definition of each factor from the Profile Forms.

2. As a group, discuss each factor's overall importance to the project and assign a number from 1 to 4 for each factor, where 1=relatively low importance and 4=relatively high importance. Place the number in the column labeled "Weight."

   - For instance, if there are 100 employees (in an agency of 300) who will be affected by the potential privatization, then that factor might be given a relatively high number. Conversely, if after reviewing the rules/laws concerning privatizing this service you determine that there are no significant obstacles, then that factor might get a low weight.

   - Because this is a subjective activity that uses all the objective and quantifiable data available, it is helpful to record the key factors that affected the rating decision and the criteria considered. Note any assumptions you make and the reasoning behind your decisions on a Rationale Sheet. (See page IX-13 for a sample.)

3. Multiply the rating for each factor by the weight you assigned in the previous step, and enter the result in the column labeled "Weighted Score."

4. Record the reasoning behind your weighting for the factor on a Rationale Sheet. (See page IX-13 for a sample of the Rationale Sheet.)

5. Repeat these steps for each of the eight factors.

6. Add each of the weighted scores together to calculate a Total Weighted Score.

Total Weighed Scores with higher positive numbers indicate that the Target Function has greater success potential. (Note that the highest possible score is 192.) Negative scores or very low positive scores indicate that the Target Function is probably not a good candidate for competition.

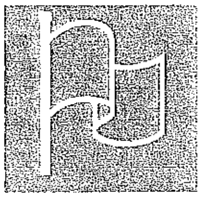
The Summary Matrix below shows the Profile Line and Weighted Score for one Target Function. Note that even though the Profile Line shows high potential, the Total Weighted Score is only +12 (out of a possible 192). The factors with the highest weight actually had lower ratings; therefore, the resulting weighted scores were low. Based on the Weighted Score, this Target Function might not be the best candidate for introducing competition.

PROFILE	LOW POTENTIAL (PRO GOVERNMENT)			HIGH POTENTIAL (PRO PRIVATE)			WEIGHT 1 = low 4 = high	WEIGHTED SCORE
1. STRENGTH OF COMPETITIVE MARKET	-6	-4	-2	+2	+4	+6	2	+12
2. QUALITY OF SERVICE	-6	-4	-2	+2	+4	+6	3	+6
3. CONTROL	-6	-4	-2	+2	+4	+6	2	-4
4. RISK	-6	-4	-2	+2	+4	+6	1	+4
5. LEGAL BARRIERS	-6	-4	-2	+2	+4	+6	1	+6
6. POLITICAL RESISTANCE	-6	-4	-2	+2	+4	+6	4	-8
7. IMPACT ON EMPLOYEES	-6	-4	-2	+2	+4	+6	3	-12
8. RESOURCES	-6	-4	-2	+2	+4	+6	2	+8
						TOTAL WEIGHTED SCORE		+12

Making the Decision to Move Forward

Once you have completed the Qualitative Analysis, you should have enough information to determine if the Target Function has good potential for successful competition. This is your first real decision point in the Competitive Government process.

Reporting Milestone



Submit a **Qualitative Analysis** letter or memo and the group's Profile Summary Matrix. This memo should include your assessment of the target function based on the environmental factors and document your decision regarding the next steps in the process.

- If your analysis indicates that the potential for success is good, or if you believe further analysis is needed, write a Qualitative Analysis letter/memo that summarizes your assessment. Submit the memo to OEG, along with the completed Summary Matrix, and move to the next step in the Competitive Government process.

- If your analysis indicates that the potential for success is low and you decide not to continue with the process, submit the completed Summary Matrix and a Qualitative Analysis letter or memo to OEG. Use this letter to explain the reasoning behind your decision.

Important Note

You must provide a detailed, written justification to the Office for Excellence if you choose to stop the process after the Qualitative Analysis or at any other point before you complete the public-private cost comparison.

Chapter 3

III. Preparing for Competition

The next part of the Competitive Government process involves preparing your agency to introduce competition for the selected Target Function. In this stage you are not just defining how the agency currently provides the service; rather, you are defining **what will be done to provide the service in the future**. The steps in this section identify your requirements for how the services will be delivered, either by your agency or a private vendor. They also lay the foundation for the competitive procurement process, for how you, as an agency, will compete, and for how your agency will handle operations should the Target Function ultimately be privatized. Because these steps are the groundwork for future actions, your careful planning and attention at this stage will help make future steps much easier!

In general, the tasks at this stage seek to answer the following questions:

- What are we doing now to deliver the Target Function? What do we want to be done in the future so that services can be improved and/or costs reduced?
- How will employees be affected?
- How will the function be transitioned to the private sector, if that is the ultimate decision?
- How will performance be monitored?

Answers to these questions will be used to develop a Scope of Work and three plans: Personnel, Transition, and Performance Monitoring. These plans will focus on organizational issues and logistics related to each area and identify how your agency will operate within each of these areas in the future.

The specific tasks in this chapter include:

1. Drafting the Scope of Work.

2. Developing a Personnel Plan to address any personnel transfer/training issues created by the potential privatization of the service.

3. Developing a Transition Plan to move delivery from the public sector to the private sector should that be the ultimate decision.

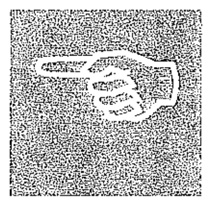
4. Developing a Performance Monitoring Plan to address how the service or program will be monitored.

Preparation of the three plans will help ensure that all parties consider key issues early in the process. You will need to complete the Scope of Work and plans in draft form, but with sufficient detail so that your Procurement Officer, or a representative from the State Procurement Office (SPO), can prepare a draft Request for Proposal (RFP).

In what order should you complete the Scope of Work and the three plans?

Even though we talk about these tasks separately, in all likelihood, you may be working on them together. To the extent possible, you will want to identify and address issues concerning contract monitoring, work transition, and personnel disposition in conjunction with the development of the work scope.

Are these the final plans?
Probably not. You will likely need to revise the plans somewhat after the RFP process is completed.



Note

Later in the process, you will be determining in-house costs and creating cost models. Your plans are a key in these steps, as they are used to build the models. Therefore, you may want to gather and record cost information as you are creating the plans. This will make the later steps much easier!

Step 1: Drafting the Scope of Work

Developing a well-defined Scope of Work is the most critical step in evaluating a Target Function for potential privatization. The Scope of Work will form both the basis for a Request for Proposals (RFP) and the basis for comparing the in-house cost to the vendor's proposed cost.

The Scope of Work is your definition of the task(s) that must be performed and the outcomes that are expected. As such it is the agency's document. Key elements of the Scope of Work include:

What is a "Scope of Work"?

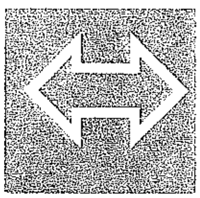
- **Introduction And Background** containing a brief history of the agency, its mission, and a brief statement of the present condition of the program and service to be completed.
- **Purpose And Objective Of Requirement** stating the intent or desired outcome of this action. This section provides the reasons for conducting the competitive process.
- **Period Of Performance** specifying the length of time that the task(s) is to be performed. If the task were a deliverable product rather than a service, this section would include the completion date or not-to-exceed date.
- **Description Of Tasks, Sub-Tasks and Deliverable Products** providing a detailed description of all work to be performed and any associated milestones, deliverables, and interim deliverable products. Each defined task or sub-task will require a milestone or deliverable product or outcome. You should also include any special knowledge or skills needed. **The description of the task(s) is the most important section you will write in the Scope of Work.**
- **Acceptance Criteria** specifying the criteria for reviewing and accepting the required deliverable products. If such criteria are not stated, you will have no basis for rejecting an unsatisfactory product or report. Also state the delivery method and format, including pertinent forms.
- **Schedule Of Performance And Delivery** specifying a schedule for accomplishing the required milestones and/or producing the deliverable products. The schedule should clearly identify the events and give real or relative dates for their accomplishment over the life of the contract.

- **Required Performance Standards And Certifications** establishing a minimum level for evaluating and accepting or rejecting a deliverable product. You should also consider outlining security standards if the contractor will have access to sensitive data.

- **Environmental Description** stating the physical and technical environment within which the tasks will be performed. The physical environment includes location for performance; travel and per diem requirements; sources of information and data; state government furnished equipment and supplies; and contractor furnished equipment and supplies. The technical environment includes hardware and software descriptions, teleprocessing services requirements and remote access equipment requirements.

- **Technical Contact Information** providing the name, address and title of the agency's contact for these requirements.

Procurement Pre-Planning Conference



A pre-planning conference is *one* tool that helps you in creating a well-defined Scope of Work. This informational meeting between your agency and the private sector allows detailed discussions regarding the technical aspects, operational characteristics and requirements of the Target Function. The private sector participants also have an opportunity to present their ideas, current concepts, and innovative approaches relative to the Target Function. It is a non-competitive, non-binding environment for the sharing of ideas. You may use the information obtained to prepare a more comprehensive Scope of Work and solicitation document should you decide to seek competition. **The pre-planning conference is an optional step in the Competitive Government process.**

Complete the following items in preparation for a pre-planning conference:

- Draft Scope of Work

- Draft Performance Monitoring Plan

- Draft Personnel Plan

- Draft Transition Plan

- List of anticipated questions that will be asked by vendors

What should you do to prepare for a pre-planning conference?
The following are steps and considerations that will help ensure a productive conference:

- ✓ Identify the vendor distribution list and notify vendors of the meeting. You can use the State Procurement Office vendor list, professional associations, yellow pages, and other state agencies to help in creating the list.
- ✓ Share the draft **Scope of Work** with potential vendors. Indicate that the conference is a non-competitive, non-binding process for informational purposes only.
- ✓ Keep a pre-planning conference attendance list and all informational records on file.
- ✓ State the purpose and desired outcome of the pre-planning conference. Reiterate that it is a non-competitive, non-binding informational process.
- ✓ Make State agency staff who are knowledgeable about the service(s) available to answer private sector questions.
- ✓ Make sure the "Resource Member" responsible for overseeing and monitoring the progress of the process is present at this meeting.
- ✓ Consider using a facilitator to conduct the meeting. The facilitator should not be an individual involved with the project, but should have an understanding of procurement and some knowledge of the project.
- ✓ Develop a set of questions for potential bidders. Consider the following examples:

    1. Is this a feasible Scope of Work? If not, what changes are recommended?
    2. Is the private sector interested in competing for the proposed services?
    3. What issues may be appropriate for the State to research, analyze, design and/or implement to develop an effective outsourcing project for the Target Function? (Sometimes potential bidders do not want to give their ideas in a public forum. In these cases they may want to address the concerns in a concept paper. Ideas expressed in this manner will be kept confidential and may be incorporated in the preparation of the RFP, as your agency deems appropriate.)
    4. What new technology is in use? How can the State benefit from this new technology?

5. How are other states and/or private sector companies conducting this operation?

Based on the discussions at the pre-planning conference, you should have a clear idea whether outside entities are interested in competing for the Target Function and how they might approach service delivery. Remember that the pre-planning conference is an information-gathering meeting and in no way a commitment to either release an RFP or proceed further. You may want to revise your Scope of Work or your plans based on information you receive in the session.

Step 2: Developing the Personnel Plan

The Reason Public Policy Institute conducted a study of the 24 largest cities in the United States and found that 85% of public employee unions and their membership opposed privatization. Government employees have historically resisted privatization efforts. Their key argument has been that privatization means loss of employment. However, **involuntary separation has not been the case in most privatization efforts.**

Since most employees don't actually lose their jobs, how are they usually affected by privatization?

The National Commission on Employment Policy, a branch of the U. S. Labor Department, published a study titled "The Long Term Employment Implications of Privatization." The study reviewed 34 city and county privatization programs and their effects on public employees. The study covered a wide range of privatization efforts and 2,213 public employees. The results are listed below:

- 58% were employed with the private contractor
- 24% were transferred to other positions within the government
- 7% retired
- 7% were laid off
- 4% unknown

It is understandable that loss of employment leads the public employees' list of concerns. How management prepares for changes will have a significant effect on the success of the privatization effort. Before taking any personnel related action, contact the DOA Human Resources Division for the most current policies and/or procedures. Contacting Human Resources will also help with the preparation of the Personnel Plan.

With early planning, you may be able to minimize involuntary separation, or avoid it entirely. Regardless of whether privatization occurs or not, your employees may be affected. Obviously, if a function is privatized some personnel changes are likely. Even in the event that the agency retains a function, changes may result as you make efforts to compete by re-engineering processes or minimizing some costs.

The objectives of the Personnel Plan are to:

- Accomplish any changes in the least disruptive manner possible.
- Be fair to all the personnel involved.

At a minimum your Personnel Plan should answer the following questions:

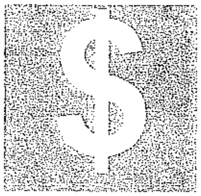
Which employees will be displaced, if any?

By what methods will each displacement occur?

Which employees will remain?

What will be the responsibilities of remaining employees?

Will there be a sufficient budget for continuing employees?



Personnel Costs

Later steps require you to complete an in-house cost analysis. Personnel costs are one element in this process. As you are collecting information for the Personnel Plan, you may find it helpful to gather some of the data you will need for this analysis at the same time. This information includes the following for the positions that will be affected by the plan:

- Position Types (Permanent, Limited, Seasonal, etc.)
- Number of FTE's
- Position Titles
- Total Annual Salary/Wage for all FTEs in each Position Title
- Employee Related Expenditures (ERE) for all FTEs in each Position Title

For more information, refer to Chapter 4-Determining In-House Costs, page IV-1.

Options for Personnel Changes

The following options are currently available to an agency when personnel changes are required. It is important to note that with proper planning, it is possible to make personnel changes without the need to involuntarily separate employees from state service.

Working within the Attrition Rate	Traditionally the State has experienced a high attrition rate. Agencies can minimize the employee impact of outsourcing by instituting a hiring freeze. Using temporary employees to fill currently vacant positions can also greatly minimize the impact on personnel.
Right of First Refusal	Wherever possible, contracts with the private sector should include a "Right of First Refusal" clause. This contract clause requires the new provider to offer employment to displaced state employees before going into the open marketplace.
Voluntary Separation	The voluntary separation program was created in the Laws of 1997, Chapter 288. When planning for this option in a potential privatization, contact the ADOA Human Resources Division concerning the specifics of the voluntary separation program.
Transfer Within Agency	Agencies should, where possible, transfer qualified employees to other budgeted positions available within the agency. Agency managers can freeze hiring in other functions/programs, allowing for employees to transfer and continue employment with the State.
Reduction in Force (RIF)	A RIF is always the option of last resort. If a RIF is required, contact DOA Human Resources Division for instruction.

Any costs associated with the implementation of these options will need to be included in the Outside Provider portion of the cost model (see page X-14).

Step 3: Developing the Transition Plan

What do we mean by "Transition Plan"?

Transition is the next area you should be concerned with when planning for the competitive process. The Transition Plan identifies how the service delivery will be physically switched from one provider to a new provider. The goal is to make the change as transparent as possible to the customer.

Although you cannot resolve all issues concerning the transfer of a Target Function prior to contracting, you should attempt to answer the following questions when developing the Transition Plan and subsequent RFP.

1. What capital assets or equipment (land, buildings, electronics, trucks, etc.) will be affected by the transfer? How will they be handled? Agencies that have acquired equipment using federal grant funds should consult the grant stipulations.

2. What new equipment, forms, paperwork, methodologies, and/or training of contract staff are needed if the agency switches from service provider to a contract-monitor role?

3. What current contractual or lease obligations must be stopped, bought-out, or transferred to the new contract provider?

4. How will customers be notified of the change in providers? How far in advance will the notification occur?

5. How will the service be delivered? Where will the customers go, and/or whom will they contact?

If the service is contracted to a new provider, a thorough, comprehensive Transition Plan will lead to smoother implementation.

Note

Many of these items (equipment purchase cost, depreciation, leases, etc.) need to be quantified and captured later in the cost models. You may find it easier to collect some of the needed data as you go along so you will have it available to you later.

Step 4: Developing the Performance Monitoring Plan

Whether your agency privatizes a service or keeps it in-house, you should be able to answer the following questions:

- Are taxpayers getting what they are paying for?
- Are our customers satisfied?
- Is the service being provided in a cost-effective manner?

To answer these questions, you must be able to define performance expectations. One key to defining those expectations is to think in terms of product rather than process – that is, in terms of the key outcomes the provider will be expected to produce, rather than thinking solely in terms of the kind of service the provider will be expected to provide.

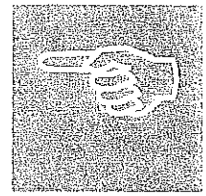
Why do we refer to both "Outomes" and "Outputs"?

Outcomes refer to how well a service is being performed; **outputs** refer to the amount of a product or service being provided. Outputs are useful in defining the level of service, but they indicate very little about whether program goals are being met, or what results the program is producing. For this reason, you should judge providers in terms of both outputs and outcomes. A job training and placement provider, for example, might be expected to provide specific services to 1,000 customers – that is the expected output. But the provider also might be expected to produce the following outcomes – actual job placements for at least 750 of the 1,000 customers, at a pay rate of at least $8 per hour, with health care benefits, and with 75% retention after six months.

You may wish to establish expectations not just for outputs and outcomes, but also for efficiency. Some examples of efficiency expectations include:

- Cost per unit produced (for example, cost per successful job placement)
- Time spent per unit produced (average number of days to initial placement)
- Units of output versus units of input (number of applicants placed in jobs, compared to the total number of applicants)

How can we make sure we get the required results?



Obviously, thinking solely in terms of the kind of service expected of the provider, or the process by which the service must be provided, does not ensure that you will get the required results. Even thinking in terms of output – as in the examples above, the provision of specific job training and placement services to 1,000 customers – fails to ensure adequate performance. Only by thinking in terms of outcomes – in this case, actual numbers of placements, wage rates, benefits, and retention rates – and efficiency – cost to the state per placement, for example – can you ensure that your agency is getting the results it wants at an acceptable cost.

Recognizing this, you need to structure the Scope of Work, the RFP, and the performance monitoring plan so that they clearly identify and help produce the desired results. **This does not mean that you should prescribe how the provider must perform the service or function**; that should be left to the provider's discretion whenever feasible. It does mean, however, that you should establish a detailed set of output, outcome, and efficiency measures, each with specific performance targets that the provider will be expected to meet, and with procedures for corrective action if those targets are not met. Where possible, you also may wish to create financial incentives and disincentives for performance that exceeds or falls short of expectations.

Regardless of whether your agency privatizes or retains a service, you must maintain responsibility for customer and stakeholder satisfaction. Strong performance measurements and a superior quality monitoring methodology will be the greatest determinants of your effectiveness in providing quality, cost effective service. This is especially true when privatizing a function that has been traditionally provided by the state.

Elements of a Performance Monitoring Plan

Active performance monitoring is critical to the continued successful operation of the Target Function. Your agency is responsible for the service to your customers, whether through public or private sector delivery. Performance monitoring will enable you to measure whether you are meeting the customers' expectations.

Performance monitoring requires you to interact with the provider and customer, and enables timely corrective action when necessary. This minimizes the possibility of low quality or poor service. To facilitate performance monitoring, consider including the following elements in your Performance Monitoring Plan, Request for Proposals, and subsequent contracts.

Periodic Provider Reporting	Require the provider to submit detailed progress reports based on pre-defined measurement criteria.
Agency Review of Provider Reports	Review the provider's performance reports for compliance to the RFP and/or written contract. Non-performance must be identified and quickly rectified.
Invoice Audits	Compare wage and equipment rates, charges for materials and all other charges with the rates agreed upon in the contract. Ensure the costs being charged are within the contract parameters.
On-site Inspections	Include on-site inspections whenever possible. Report on inspection results and compare with contract specifications. If on-site visits are not feasible, you may want to emphasize measurement of customer satisfaction.
Customer Surveys	Include customer surveys on service delivery and quality. Require the provider to resolve each customer complaint. Keep records of both the complaint and the method of correction.
Customer Interviews/Focus Groups	Conduct in-depth conversations with customers, either through interviews or focus groups, to gather detailed information on areas in which service is meeting expectations, ways in which it could be improved, and ideas for new services or processes.
Complaint Monitoring	Periodically review customer complaints. Though they present a one-sided picture of provider performance, they often contain valuable information that can be used for improving the quality of service.

Performance Measures

Writing the performance measures is the first step in developing the Monitoring Plan. You will use the performance measures to:

How do we use performance measures?

- Define the standards for effective performance of the Target Function
- Ensure that the desired outputs and outcomes are being achieved
- Measure customer satisfaction with the provider
- Supply the data for evaluations, audits, and contract amendments

Some important considerations for developing good performance measures follow:

- **Are the performance measures generally applicable to both a private contractor and the state agency?**

  If the Target Function is outsourced, the performance measures will be an important part of the contract monitoring process. However, if the Target Function remains in-house, essentially the same set of performance measures should be usable for monitoring the state agency's performance.

- **Are the performance measures written with the customer in mind?**

  Review the mission, goals, and objectives of the Target Function. Performance measures should reflect customer needs and interests first, and provider and contract monitor needs second.

- **Do the performance measures emphasize outcomes rather than process?**

  Focus on what the provider will be expected to produce, not how it will be expected to produce it. Landscaping performance measures, for example, should focus on the average expected length of grass, not on how often the grass needs to be mowed, with what kind of equipment, and by how many workers.

- **Do the performance measures include quantifiable, measurable performance targets?**

  Benchmark against the agency's historical performance and the performance of high-performing organizations to set ambitious but realistic performance targets. Include such targets for all of your performance measures.

- **Do the performance measures clearly indicate how the measures will be constructed?**

  Measures expressed in ambiguous language are likely to be confusing and potentially ineffective for assessing performance. For example, "average customer satisfaction rating" as a performance measure is less desirable than "average customer satisfaction rating, as given by the sum of individual customer satisfaction responses on a 1 to 5 scale, divided by the total number of customer responses."

- **Will it be possible to collect accurate and reliable data for the performance measures, and to do so economically?**

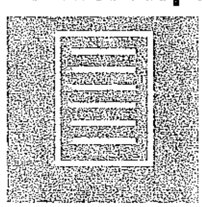
- **Do the performance measures clearly indicate how, when, by whom, and to whom the measures are to be reported?**

- **Do the performance measures adequately reflect the mission and goals associated with the Target Function?**

- **Taken together, do the performance measures capture the full range of expected outcomes and results associated with the Target Function?**

- **Do the performance measures, individually or jointly, give an accurate indication of customer satisfaction with the provision of the Target Function?**

Provider Reporting



Performance measures are a major component of performance monitoring. The other component is provider reporting. Performance data should be gathered periodically. You cannot wait until the end of the contract period to learn that a problem exists internally or externally. Therefore, develop a schedule to allow for thorough, periodic monitoring.

The provider-reporting component should specifically address:

1. **What** data (financial and non-financial) the provider will collect and report.
2. **How** the provider will submit the data.
3. **To whom** the provider is required to submit the report.
4. **When** the provider is required to report.
5. **What** actions the agency may take in response to evaluation of the data.

When the Performance Measures and Provider Reporting components are combined, you have completed the Performance Monitoring Plan.

Reporting Milestone

Submit the **Scope of Work** packet to OEG. This contains a detailed description of the service or program analyzed plus the **Personnel Plan, Transition Plan and Performance Monitoring Plan.**

Important Note

You must provide a detailed, written justification to the Office for Excellence if you choose to stop the process prior to completing the public-private cost comparison.

Chapter 4

IV. Determining In-House Costs

The next step in the Competitive Government process is determining the in-house costs for providing the Target Function as defined in the project scope. These costs need to reflect the State's cost to provide that Scope of Work, while meeting the performance targets in the Performance Monitoring Plan. **It is critical that the in-house costs reflect the same requirements that will be included in the RFP**. In a later step, you will compare the private sector and state agency costs to provide the Target Function.

Glossary of Cost Model Terms

You may want to review the following terms used in the cost model:

Asset Transfers
The sale and/or trade of fixed assets (land, buildings, right-of-way, etc.) by the State to a private for-profit or not-for-profit entity.

Depreciation
1) Expiration in the service life of fixed assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and obsolescence; 2) the portion of the cost of a fixed asset other than a wasting asset that is charged as an expense during a particular period.

Depreciation Level
The base level established by an agency for depreciation within a year. Items that are below the depreciation level amount are treated as an expense. Items that are above the depreciation amount are depreciated.

Direct Costs

Costs exclusively related to the Target Function. If the Target Function ceased to exist, the direct costs would also cease. An example would be any personnel expenses for employees working exclusively on the Target Function.

Full Time Equivalent (FTE)

An employee who works a minimum of 2080 hours per year based on a 40-hour work week.

Indirect Costs

Costs that are incurred for the benefit of more than one Target Function, e.g., the centralized accounts payable unit that processes payments for a group of activities/functions. Indirect costs are usually allocated based on a formula.

Relevant Costs

Those Target Function costs that would be eliminated if the Target Function were transferred from the State to a private provider. Material costs to provide the service are an example of a relevant cost; they will no longer be incurred by the State if the service is privatized.

Salvage Value

The estimated value of a depreciable asset at the end of its useful life. (Sometimes also referred to as "residual value").

Unavoidable Costs

Costs that benefit the Target Function and will not be eliminated if the Target Function is provided by a private vendor. For example, if the Target Function were not significantly large, no reduction in the FTE required to process payroll would occur. Thus, payroll processing would be considered unavoidable costs.

Useful Life

The estimated time period during which the depreciable asset is expected to be used by the agency or program.

What is the Basic Process?

At the highest level, completing the in-house cost analysis process includes the following two steps:

1. Accumulate total direct costs. Distinguish costs that are relevant to the Target Function.

2. Determine indirect costs attributed to the Target Function. Distinguish relevant costs from unavoidable costs.

To do this you will use one of two cost models: the "Full Cost Model" or the "Mini-Model."

- **The Full Cost Model** consists of a series of supporting worksheets needed to complete the analysis process. The model allows analysis of five review periods for a three-year contract. A review period is equivalent to a fiscal year. (Longer contracts will require additional review periods for the additional contract years; additional worksheets can be created as needed for these extra years.)

- **The Mini-Model** is an abbreviated version of the cost model. It uses fewer schedules and only analyzes costs for the current period.

When can you use the "Mini-Model"?

- First, if the Target Function has less than $500,000 in budget and fewer than five FTE's, you may use the Mini-Model in place of the Full Cost Model. For small programs or services, potential savings may not be enough to justify the resources required to undertake the complete review. The Mini-Model, however, provides a review of the investment utilizing fewer resources.

- Second, if your agency wishes to do a relatively thorough analysis of the outsourcing potential of a Target Function **before** undertaking the complete Competitive Government review, it may do so by using the Mini-Model.

The following tables provide more detail on when each model should be used, along with the features and benefits of each:

Decision Rules	Full Model	Mini-Model
• Service and/or program uses at least five FTE employees	**Yes**	**No**
• Service and/or program uses less than five FTE employees	**No**	**Yes**
• Service and/or program has a budget of $500,000 or more	**Yes**	**No**
• Service and/or program has a budget of less than $500,000	**No**	**Yes**
• "Test the water" pre-review, assess and evaluate for outsourcing potential before undertaking the complete review	**No**	**Yes**

Features	Full Model	Mini-Model
1. Utilizes integrated linking worksheets	**Yes,** in three workbooks	**Yes,** all in one workbook
2. Allows the capturing of data from multiple periods of time	**Yes**	**See below**
• Historical	Yes	No
• Current	Yes	Yes
• Projected over one or more review or contract periods	Yes	No
3. Provides ability to preview information associated with using a contractor and outside service delivery	**Yes**	**See below**
• Contractor Costs (i.e., contractor price, etc.)	Yes	Yes
• Contractor Supports (e.g., agency provides contractor with staff, facilities, equipment or technical assistance)	Yes	Yes

• Contract Monitoring (i.e., personnel, support staff, supplies, travel, etc. related to compliance and performance)	Yes	Yes
• Revenue Generated – Asset Sales	Yes	No
• Conversion Costs (e.g., one-time costs associated with transferring the service)	Yes	Yes

Benefits	Full Model	Mini-Model
1. Offers the ability to customize to cover greater number of review periods	**Yes**	**No**
2. Provides an excellent way to produce "what if" scenarios with few schedules to complete over few review periods	**No**	**Yes**

You may download all of the files from the OEG website; or, contact OEG for disks containing both models. OEG consultants are also available to assist you in completing either model.

Hints for Using the Cost Models

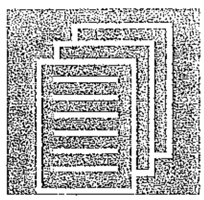
The Cost Model Worksheets are contained in four Excel workbooks. (Also available in QuatroPro format upon request.) Three of the workbooks are used only for the Full Cost Model; the final workbook is used only for the Mini-Model. Each workbook, and its corresponding worksheets, uses a consistent coloring format to help you:

- **Pale Green** cells indicate fields that are automatically calculated by the worksheet. You cannot enter information directly into these cells.
- **Yellow** cells indicate information that is automatically calculated and carried forward to another worksheet. There are two exceptions to this: 1) In the "Total Cost Comparison" worksheet, you must enter both Agency and Target Function names. 2) In the "In-House Other Direct Costs" worksheet, you must enter all the pale yellow fields.
- **Light Blue** lines do not indicate a specific data type, but exist to help orient you during data entry.

How Do You Complete the Full Cost Model?

The cost model is a tool to help you identify and organize those costs that are attributable to the target function. Because the models are designed to identify cost savings, it is critical that only relevant costs are listed and, therefore, form the basis for future comparisons to the private sector.

The Full Cost Model actually has three components. Each of these components is contained in a separate Excel workbook:



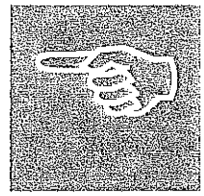
- Total Cost Comparison (also called "Schedule A – Total Cost Comparison")
- In-House Costs (also called "Schedule B – Total Direct Costs" and "Schedule C – Indirect Costs")
- Outside Cost (Competition or Outside Vendor figures)

The Full Cost Model allows analysis of five review periods (fiscal years) for a three-year contract. Longer contracts will require additional review periods for the additional contract years. You will need to create additional worksheets for extra years. The review periods fall within the following categories:

Data Source	Review Period	Explanation
Historical	1	The most current historical data is desired. However, use sound judgment when determining what data best reflects the service costs. If the prior year is not representative of the service as a whole, a trend analysis of the last several years may provide a more useful baseline.
Current	2	Project this year's costs extrapolated from the current year-to-date actual expenditures, or a more accurate methodology if available.
Projected	3,4,5	Develop the projected costs to provide the service for the contract term. These costs should reflect the costs to provide the service at the levels identified in the performance measures (see page III-14). Any assumptions that support the projected costs should be clearly identified. Projected costs cannot exceed the agency's approved budget.

Why project the in-house costs for the contract period?

The projection of the contract period costs is your agency's opportunity to compete for delivery of the Target Function. The Contract Period costs should reflect the resources required to deliver the Target Function's Scope of Work. These projections will be independently reviewed and will form the basis for comparison to private sector costs.



This chapter deals with only the In-House Cost and a small part of the Total Cost Comparison. The Outside Cost topic is covered later. (See page V-3.) See Appendix D, page X-1 for hard copies of all worksheets. A disk containing the Excel workbooks is available from your OEG Competitive Government consultant; or you may download the files from the OEG Competitive Government website (www.governor.state.az.us/excellence).

The major steps for completing the In-House Cost analysis, using the Full Cost Model, are as follows:

1. Calculate total Direct Costs from various categories. Then, determine which Direct Costs are relevant (avoidable) and should be used for comparison.

2. Calculate Indirect Costs by determining the appropriate allocations to the Target Function. Then determine which of these costs are relevant (avoidable) and should be used for comparison. Enter the total relevant Indirect Costs into Schedule C.

   - The system will automatically carry both direct and indirect costs forward to Schedule A.

3. Determine any needed in-house adjustments and enter into Schedule A. These amounts will require explanation and justification on a separate document.

4. Submit the In-House Cost Analysis to OEG for review.

5. Seal the In-House Cost Analysis. The analysis will remain sealed until you are ready to compare your agency's costs with the selected private sector offeror's costs.

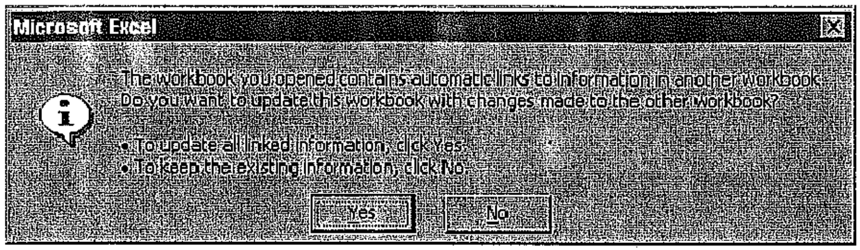
Prepare the Workbooks

Follow these steps to begin using the Full Cost Model:

The Total Cost Comparison Workbook

To begin, open the "Total Cost Comparison" workbook.

1) When you open the file, the system will prompt you with the following message:



   Be sure to answer "Yes" so that links to information in the other workbooks will be activated.

2) Enter the following information on the "Total Cost Comparison" worksheet: (See page X-3.)

   a) Contract Term – The number of future contract periods for review. This is a critical field as many costs are amortized; this number is required for the amortization formulas.

   b) Agency Name

   c) Target Function

   Your entries will automatically transfer to other worksheets if you answered "Yes" to enable the automatic links. No other input is necessary on the "Total" worksheet at this time. All of the figures, with the exception of adjustments, will be automatically transferred to this worksheet as the "In-House" and "Outside" worksheets are completed.

Note

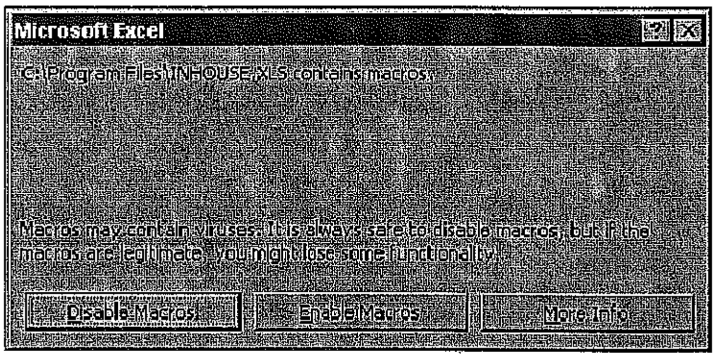
Due to the fact that different people might be preparing worksheets, you will need to enter the "Prepared by" field separately on each worksheet.

3) Be sure to save the "Total Cost Comparison" worksheet before closing it so that your changes are captured.

The In-House Costs Workbook

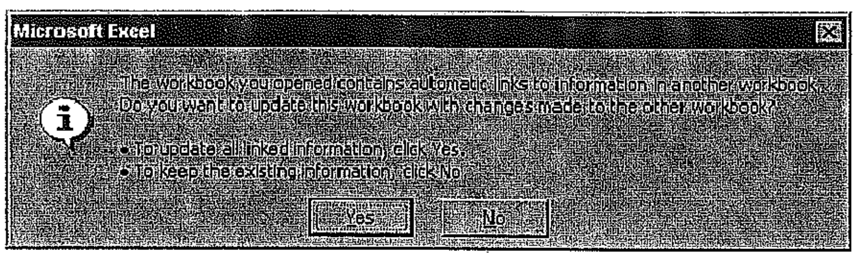
Once you have entered the contract term, agency name, and target function in the "Total Cost Comparison" workbook, open the "In-House Costs" workbook. This workbook contains fourteen worksheets used to capture data for the In-House cost analysis. Thirteen of these are used to capture direct costs; the final worksheet is used for indirect costs. You should complete all the worksheets that are applicable to the target function.

1) When you open the file, the system will prompt you with the following message.



Be sure to answer "Enable Macros" so that the worksheets will calculate information appropriately.

2) Next, the system will prompt you with this message:



Be sure to answer "Yes" so that all of the links to information in the other workbooks will be activated.

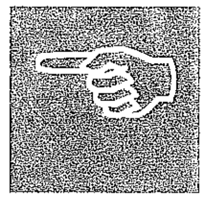
3) The first worksheet is "Schedule B – Total Direct Costs". You will not need to enter any data on this worksheet, as it carries from other worksheets within this workbook. Click on the appropriate tabs and follow the instructions below for calculating direct and indirect costs. (The first thirteen worksheets deal with direct costs; the final worksheet is used for indirect costs.)

Additional Information for Completing the Model

Identify all data sources used.

Round all amounts to the nearest dollar.

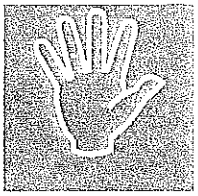
Be prudent when completing the in-house cost determination. Although an effort has been made to define costs so that they fit into only one category, some costs may blur the lines of distinction. The key is to ensure that you include all costs ONLY ONCE. Use your best judgment to determine the most appropriate category and provide supporting documentation.



Calculate Direct Costs

Direct costs are the costs that are specifically identified with the Target Function and that are incurred for the sole benefit of that service. There are many types of costs that contribute to "Direct Costs." Some will be clearly delineated. However, depending on the size of the Target Function, many of the costs listed within this section may require allocation to the Target Function. The most important factor is to ensure that you include all costs once, and only once.

Use the first thirteen worksheets within the "In-House" workbook to capture direct costs. The first worksheet is **Schedule B – Total Direct Costs**. (See page X-4.) Do not enter any information into this worksheet, as it will carry forward from other worksheets. The categories of direct costs and their corresponding worksheets are discussed below, along with instructions for completing each worksheet. The worksheets automatically carry forward the individual cost amounts to the appropriate summary worksheets.



1) **Personnel.** Use the Personnel Historical Costs Worksheet (see page X-5) to help you accumulate personnel costs for the Target Function. Note that this is a historical view, using the most recent relevant time period. Ideally, this will be the last completed fiscal year.

   a) Enter the name of the person preparing this worksheet in the "Prepared By" field.

   b) Enter the following for each position required to perform the service:

      i) Position Type, such as permanent, limited, seasonal, or uncovered

      ii) Position Title, such as Clerk/Typist I

      iii) The number of FTEs used for that position title

      iv) The Total Annual Salary or Wage for all FTEs in that position title

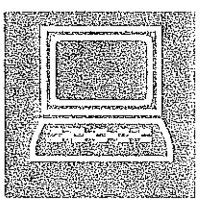
      v) The Total Fringe Benefits for all FTEs in that position title

      vi) The total number of permanent, limited, seasonal, or uncovered employees at the bottom of the worksheet

   c) The worksheet will calculate Total Personnel Costs by adding the annual salary and benefit amounts.

   d) The total for this worksheet will carry forward to Line A-Personnel of Schedule B "Total Direct Costs" (see page X-4).

   e) Repeat this process for the Personnel Current Costs and Personnel Contract Term worksheets.



2) **New Equipment.** Use the New Equipment-Current Costs Worksheet (see page X-8) to accumulate equipment costs and depreciation.

   a) Enter the Depreciation Level for your agency. Equipment below this amount will be treated as expense. Equipment above this level will be depreciated.

   b) Enter the name of the person preparing this worksheet in the "Prepared By" field.

   c) Enter the following for any new equipment needed to continue to provide the Target Function:

i) Equipment Description

ii) Projected Cost

iii) Salvage Value

(1) The worksheet will calculate the Depreciation Base.

iv) Useful Life

The *State of Arizona Accounting Manual* guidelines for establishing a depreciation schedule are reprinted for your convenience.

Asset Type	Useful Life
Buildings	40 years
Improvements Other Than Buildings	15 years
Aircraft.	15 years
Heavy Trucks	7 years
Light General Purpose Trucks	5 years
Automobiles	5 years
EDP Equipment	5 years
Office Equipment	5 years
Office Furniture	5 years

d) The system will calculate depreciation on the capital equipment. Items valued at less than the capitalization threshold are not depreciable and will not be included in the depreciation calculation.

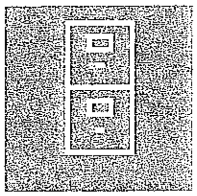
Note

See the *State of Arizona Accounting Manual* for the specifics of the capitalization policy, special situations regarding PCs, and the current capitalization threshold. As of this writing, all vehicles, furniture, machinery, EDP equipment, software and all other equipment costing $5,000 or more with a useful life of greater than one year are to be capitalized. All improvements to these asset types costing $5,000 or more are also to be capitalized. Items costing less than this $5,000 are to be expensed.

e) The total new equipment costs for items not subject to depreciation will carry forward to Line B-New Equipment of Schedule B "Total Direct Costs" (see page X-4).

f) The total depreciation for this worksheet will carry forward to Line C-Depreciation of New Equipment of Schedule B (see page X-4).

g) Repeat these steps for any projected new equipment costs over the anticipated contract period using the New Equipment-Contract Period 1-5 Worksheets.



3) **Current Equipment.** Use the Current Equipment-Depreciation Worksheet (see page X-10) to accumulate depreciation for all capital equipment currently used to provide the service.

a) Enter the name of the person preparing this worksheet in the "Prepared By" field.

b) Enter the following for any currently owned equipment needed to provide the service:

i) The four-digit year the equipment was purchased

ii) Equipment Description

iii) Original Purchase Price

iv) Any capital improvements of more than $1000 made to the equipment

v) Salvage Value

(1) The worksheet will calculate the Depreciation Base by subtracting the Salvage Value from the Projected Cost and adding back any Capital Improvements.

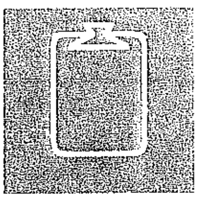
vi) Useful Life

The *State of Arizona Accounting Manual* guidelines for establishing a depreciation schedule are reprinted for your convenience.

Asset Type	Useful Life
Buildings	40 years
Improvements Other Than Buildings	15 years
Aircraft.	15 years
Heavy Trucks	7 years
Light General Purpose Trucks	5 years
Automobiles	5 years
EDP Equipment	5 years
Office Equipment	5 years
Office Furniture	5 years

c) The system will calculate Depreciation on the current capital equipment for the past years of useful life, the current year, and the remaining years of useful life.

d) The total depreciation for this worksheet will carry forward to Line D-Depreciation of Current Equipment of Schedule B "Total Direct Costs" (see page X-4).



4) **Lease/Rental Costs.** Use the Lease/Rental Costs Worksheet (see page X-11) to enter costs for any leased equipment or buildings. It is important that all of the space required for the Target Function is accounted for. However, it is equally important to make sure that no other service/program's space is included here.

   a) Enter the name of the person preparing this worksheet in the "Prepared By" field.

   b) Enter the total costs for the historical period, current year, and anticipated contract periods for the following categories:

      i) Land

      ii) Buildings

         (1) If there are no direct recorded space costs for the Target Function, use the current Budgeting Rates for DOA buildings to calculate the space costs. Explain any deviations.

         (2) It is important that all of the space required for the Target function is accounted for – and <u>only</u> its space.

      iii) Data Processing Equipment

      iv) Vehicles

      v) Other Machinery & Equipment

      vi) Any other leased or rented items

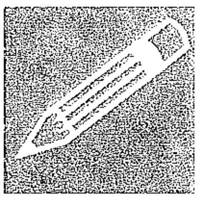
   c) Determine whether any of these costs are unavoidable (costs that would continue to be incurred even if the State no longer provided the service).

   d) Enter all costs that would be eliminated as the result of a contractor providing the Target Function into the relevant cost column for each category.

e) The total relevant costs for this worksheet will carry forward to Line E-Lease/Rental of Schedule B (see page X-4).

5) **Other Direct Costs.** Use the Other Direct Costs Worksheet (see page X-12) to enter the remaining major cost categories that may be required to provide the Target Function.

a) Enter the name of the person preparing this worksheet in the "Prepared By" field.

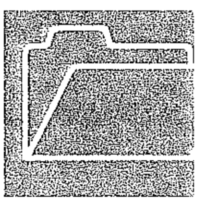


b) **Insurance.**

i) Determine the full insurance expenditures and record in the "Total" column for the appropriate period.

ii) Establish whether any of these insurance costs are unavoidable costs (costs that would continue to be incurred even if the State no longer provided the service). Enter the costs that would be eliminated into the relevant cost column.

iii) The total relevant insurance costs for each year will carry forward to Line F-Insurance of Schedule B (see page X-4).

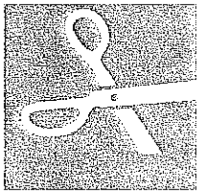


c) **Material & Supplies.**

i) Determine the material and supply costs necessary to provide the Target Function. Enter the total for the historical period, current year, and anticipated contract period.

ii) Determine whether any of these costs are unavoidable costs (costs that would continue to be incurred even if the State no longer provided the service). Enter the costs that would be eliminated into the relevant cost column.

iii) The total relevant materials & supplies costs for each year will carry forward to Line G-Materials & Supplies of Schedule B. (See page X-4.)



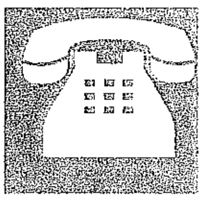
d) **Repairs & Maintenance.**

i) Calculate the cost incurred to keep buildings and equipment required for the Target Function in normal operating condition. Enter the total for the historical period, current year, and anticipated contract period.

(1) For assistance in determining whether expenses are repairs and maintenance, or capital costs, please see the *State of Arizona Accounting Manual*, section G.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant materials & supplies costs for each year will carry forward to Schedule B, Line H-Repairs & Maintenance. (See page X-4.)

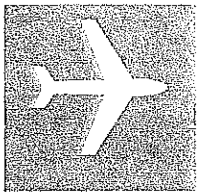


e) **Telecommunications.**

i) Calculate the charges associated with telegrams, cablegrams, pagers, beepers, mobile phones and telephones needed to provide the service. Enter the total for the historical period, current year, and anticipated contract period.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant telecommunications costs for each year will carry forward to Schedule B, Line I-Telecommunications (see page X-4).

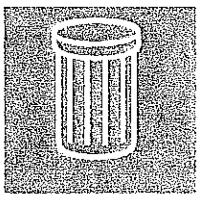


f) **Travel.**

i) Calculate the transportation and subsistence charges for in-state and out-of-state travel required for completion of the Target Function. Enter the total for the historical period, current year, and anticipated contract period.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant telecommunications costs for each year will carry forward to Line J-Travel of Schedule B. (See page X-4.)



g) **Utilities & Related Expenditures.**

i) Calculate the total utility costs and enter them for each of the timeframes. Utilities include any electricity, waste disposal, fuel oil & bottled gas, natural gas and water required to provide the Target Function.

(1) The amount entered should be the *actual cost* to the State for the utilities. Some entities may be subsidized, but you must itemize costs from a "total cost to the State" perspective.

(2) It is reasonable to include an increase with a percentage for inflation or continued growth of the program or service based on historical data.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant telecommunications costs for each year will carry forward to Line K-Utilities of Schedule B. (See page X-4.)

h) **Other.**

i) Calculate any directly attributable costs that do not fit into one of the other categories here. This includes advertising, postage or delivery, printing or photography, books, etc. Enter the total for the appropriate time periods.

(1) Provide a supporting worksheet identifying what costs are included.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant other costs for each year will carry forward to Line L-Other of Schedule B (see page X-4).

Once you have completed each of these steps, all relevant costs from each of the Direct Cost categories should show on Schedule B. The total Direct Cost will carry to Schedule A " Total Cost Comparison" Line A (see page X-3).

Calculate Indirect Costs

Indirect Costs are costs that are incurred to benefit several services/activities, including the Target Function. Indirect costs can be broken into two components: Agency Indirect Costs and Statewide Indirect Costs.

- **Agency Indirect Costs** benefit the Target Function and at least one other agency unit. This translates to expenditures in areas such as central administration, personnel, accounting, information resources and operating and support services.

- **Statewide Indirect costs** are defined and annually determined by the Department of Administration to cover services that benefit all agencies and departments statewide. Included in this percentage are things like the services of the Attorney General, the Governor's Office, etc. Consult with your agency's budget officer to determine the correct percentage for your agency.

How do you determine how much of an indirect cost to apply to the Target Function?

Depending on the level of agency accounting detail, accumulation of the indirect cost totals may require specialized efforts. Your agency may or may not have an established allocation plan. The key to an equitable plan is an appropriate allocation base. You will need to explain the methodology you used for all allocations.

You may allocate the indirect costs on a total basis or by specific service type. An example of a specific service allocation of accounts payable shows below. The key is to determine what portion of the agency's accounts payable processing is attributed to the Target Function. This portion should be determined by comparison to some relevant base. An equitable charge for accounts payable processing may be on the basis of the number of transactions processed.

Example:

Total Agency Transactions	**25,000**
Target Function Transactions	**5,000**

Therefore 20% (5,000 / 25,000) of the costs for the accounts payable service should be allocated to the Target Function.

You may choose to allocate indirect costs based solely on a "Total" basis. That is, you may want to allocate based on the Target Function's percentage of the following:

- Total Personnel Costs
- Total Direct Costs
- Total Number of FTE's

You may also want to allocate indirect costs according to some other factors that might be meaningful for the particular service. The following table lists some of the possible ways to allocate costs for various types of services:

Service	Possible Allocation Base
Accounting	Number of Transactions Processed
Accounts Payable	Checks/Warrants Issued, Transactions Processed
Auditing	Audit Hours
Budgeting	Hours Expended on Service Completion
Building Lease Mgmt	Number of Leases
Data Processing	System Usage, Programmer Hours
Equipment Maintenance & Repairs	Hours Expended on Service Completion
Human Resources	FTE, Number of Employees
Legal Services	Hours Expended on Service Completion
Mail & Courier Service	Number of Documents Handled, Number of Employees Served, Pick-Up Points
Motor Pool Costs	Miles Driven, Days Used
Office Space Use	Square Feet of Space Occupied
Payroll	FTE, Number of Employees, Number of Checks Printed
Printing & Reproduction	Hours Expended on Service Completion, Pages Printed
Procurement	Total Proposals & Contracts Processed
Utilities	Square Feet of Space Occupied, Type of Equipment Used

Use **Schedule C – Indirect Costs Summary** to complete this step. The worksheet automatically carries forward the individual cost amounts to the appropriate summary worksheets. Follow the instructions below to complete the Indirect Cost Summary Schedule:

1) Enter the name of the person completing the worksheet into the "Prepared By" field.

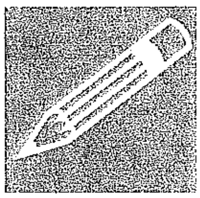
2) Enter the Indirect Cost Category. Consult the tables above to assist you.

3) Determine the total allocation amount for the appropriate historical period and enter it into the worksheet. Do the same for the current year and each of the anticipated contract periods.

4) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

5) The worksheet will calculate Total Indirect Costs and will carry forward to Line B-Indirect Costs of Schedule A "Total Cost Comparison" (see page X-3).

Determine In-House Adjustments



You have now documented both the direct and indirect in-house relevant costs for the Target Function. Most likely you have identified all historical, current and projected service costs to this point. However, if your agency requires special adjustments for certain review periods, enter them in the in-house adjustment category of Schedule A-Total Cost Comparison. **You must document all adjustments in a supporting worksheet.** Make a special effort to ensure that no costs included in this category are duplicative and that all costs are relevant to the service.

Before presenting the in-house costs to the OEG for review, your agency management should review the analyses completed to date. Management should have a high degree of comfort with the in-house costs before forwarding it for review. Make any requested revisions before the in-house costs are submitted to OEG.

Submit to OEG for Review

Once you have completed the analysis of the Target Function to this point, OEG will review your assumptions, in-house cost history and contract period estimates.

Reporting Milestone

Submit the **Target Function** packet to OEG. This package should include the following items:

1. Cover letter addressed by the Agency Director. Samples are available from OEG.
2. Project Scope of Work Description (and related Performance Monitoring, Transition, and Personnel Plans)
3. In-House Cost worksheets and Supporting Documentation

The independent review by OEG focuses on determining that the in-house numbers appear reasonable. This may include, but is not limited to, examination of the completeness of accounting for historical costs, analysis of overhead allocation methodologies, review of the rationale supporting the contract term projections, and on-site review. This may be an iterative process. OEG will return any discrepancies noted during the independent review to the agency for resolution. Larger projects may initially submit cost sections piecemeal, to allow OEG to begin their review during the compilation. This may facilitate more timely changes, should any be necessary. It is important to note that OEG's "reasonableness" review should not be construed as an audit.

Seal the In-House Costs

Once OEG has reviewed and approved the agency's in-house costs, you need to secure the costs while the Request for Proposal process is completed. You should now submit a printed copy of the approved in-house cost worksheets, along with the cost model diskette, to the Agency procurement office or officer. Procurement will date and time stamp the worksheets and seal them until the procurement process identifies the outside bidder with the most advantageous proposal.

Why do we seal the in-house cost analysis?

Sealing the in-house cost estimates allows your agency a fair opportunity to retain the Target Function in-house. A key component of the Competitive Government Program is to identify the best option for the State. Sealed costs help to ensure that both the State and the private sector base their respective estimates on internal strengths and resources. Competitive Government assumes comparisons based on the requirements to provide the service, not on the existing cost structure.

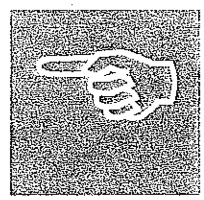
Important Note

It is your agency's responsibility to ensure that additional copies of these costs are not available for viewing, accidental or otherwise.

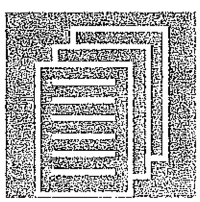
How Do You Complete the Mini-Model?

The Office for Excellence in Government has developed an abbreviated version of the full Competitive Government cost model. The Mini-Model uses fewer worksheets and only analyzes costs for the current period. As a reminder, you may use this model if the Target Function has less than $500,000 in budget and fewer than five FTE's, or if your agency wishes to do a relatively thorough analysis of the outsourcing potential of a Target Function **before** undertaking the complete Competitive Government review.

See Appendix D, page X-23 for hard copies of all worksheets in the Mini-Model. A diskette is available from your OEG Competitive Government consultant. Or, you may also download the files from the OEG Competitive Government website at www.governor.state.az.us/excellence.



Like the Full Cost Model, the Mini-Model has three components. However, unlike the Full Cost Model, the Mini-Model uses only one Excel workbook. This workbook contains eleven different worksheets broken down into the three main sections:



- Total Cost Comparison (also called "Schedule A – Total Cost Comparison")
- In-House Costs (also called "Schedule B – Total Direct Costs")
- Competitor Cost (Outside Vendor)

The major steps for the Mini-Model are the same as for the full cost model. However, the level of detail is not as great.

1. Calculate total Direct Costs from various categories. Then, determine which Direct Costs are relevant (avoidable) and should be used for comparison. Enter the relevant costs into the appropriate worksheets.

2. The Mini-Model calculates indirect costs using a pre-determined formula of 12% of the direct costs. You do not have to take any action, but you may want to review the cost calculated and reflected on Schedule A.

3. Determine any needed in-house adjustments and enter into Schedule A. These amounts will require explanation and justification on a separate document.

4. Submit the In-House Cost Analysis to OEG for review.

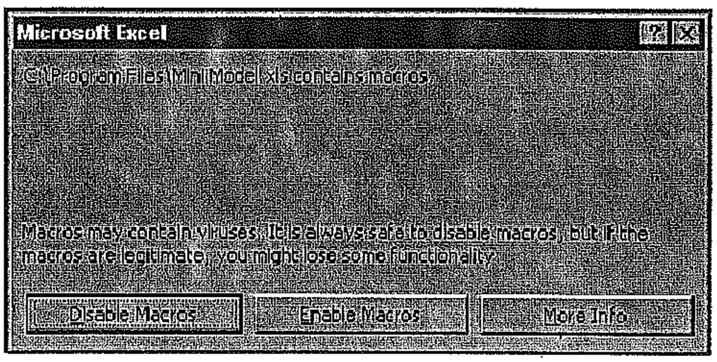
5. Seal the In-House Cost Analysis. The analysis will remain sealed until you are ready to compare your agency's costs with the selected private sector offeror's costs.

Prepare the Workbook

Follow these steps to begin using the Mini-Model:

To begin, open the "Mini-Model" workbook.

1) When you open the file, the system will prompt you with the following message.



Be sure to answer "Enable Macros" so that the worksheets will calculate information appropriately.

2) Enter the following information on the "Total Cost Comparison" worksheet: (See page X-23.)

   a) Agency Name

   b) Target Function

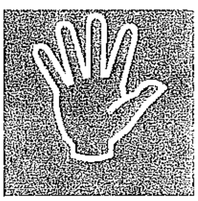
c) Current State Fiscal Year

This information will automatically transfer to other worksheets if you answered "Yes" to enable the macros. No other input is necessary on the "Total Cost Comparison" worksheet at this time. All of the figures, with the exception of adjustments, will be automatically transferred to this worksheet as the "In-House" and "Outside" worksheets are completed.

3) Follow the steps below to enter the other In-House information.

Calculate Direct Costs

Use **Schedule B – Total Direct Costs – Mini-Model and the five other associated worksheets** to complete this step. The categories of direct costs and their corresponding worksheets are discussed below, along with instructions for completing each worksheet. The worksheets automatically carry forward the individual cost amounts to Schedule A and B.



1) **Personnel.** Use the Mini-Model Personnel Worksheet (see page X-25) to help you accumulate personnel costs for the Target Function. Note that this is for the current year only.

   a) Enter the following for each position required to perform the service:

      i) Position Type, such as permanent, limited, seasonal, or uncovered

      ii) Position Title, such as Clerk/Typist I

      iii) The number of FTEs used for that position title

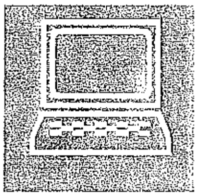
      iv) The Total Annual Salary or Wage for all FTEs in that position title

      v) The Total Fringe Benefits for all FTEs in that position title

      vi) The total number of permanent, limited, seasonal, or uncovered employees at the bottom of the worksheet

   b) The worksheet will calculate Total Personnel Costs by adding the annual salary and benefit amounts.

c) The total for this worksheet will carry forward to Line A-Personnel of Schedule B "Total Direct Costs – Mini-Model" (see page X-24).



2) **New Equipment.** Use the New Equipment – Mini-Model Worksheet (see page X-26) to accumulate equipment costs and determine the current depreciation amount. The depreciation level and depreciation period are fixed at $5000 and five years for this model.

   a) Enter the following for any new equipment needed to continue to provide the Target Function:

      i) Equipment Description

      ii) Projected Cost

      iii) Fair Market Value at end of contract term

         (1) The worksheet will calculate the Value Base.

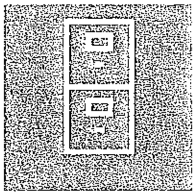
   b) The system will calculate the annual usage costs on the capital equipment based on the Current Depreciation Level and Depreciation Period at the top of the worksheet. Items valued at less than the capitalization threshold are not depreciable and will not be included in the depreciation calculation but will be shown as "Expensed."

Note

See the *State of Arizona Accounting Manual* for the specifics of the capitalization policy, special situations regarding PCs, and the current capitalization threshold. As of this writing, all vehicles, furniture, machinery, EDP equipment, software and all other equipment costing $5,000 or more with a useful life of greater than one year are to be capitalized. All improvements to these asset types costing $5,000 or more are also to be capitalized. All improvements costing less than $5,000 are to be expensed.

   c) The total new equipment costs for items not subject to depreciation will carry forward to Line B-New Equipment of Mini-Model Schedule B (see page X-24).

   d) The total depreciation for this worksheet will carry forward to Line C-Usage - New Equipment of Mini-Model Schedule B. (See page X-24).



3) **Current Equipment.** Use the Current Equipment-Usage Worksheet (see page X-27) to accumulate depreciation for all capital equipment currently used to provide the service.

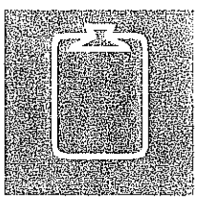
   a) Enter the following for any currently owned equipment needed to provide the service:

      i) Equipment Description

      ii) Current Fair Market Value

      iii) Fair Market Value at end of contract term

   b) The system will calculate the Value Base and the Annual Usage Costs. The latter amounts will carry forward to Line D-Usage - Current Equipment of Schedule B "Total Direct Costs – Mini-Model" (see page X-24).



4) **Lease/Rental Costs.** Use the Lease/Rental Costs Worksheet – Mini-Model (see page X-28) to enter costs for any leased equipment or buildings.

   a) Enter the current year costs for the following categories:

      i) Land

      ii) Buildings

         (1) If there are no direct recorded space costs for the Target Function, use the current Budgeting Rates for DOA buildings to calculate the space costs. Explain any deviations.

      iii) Data Processing Equipment

      iv) Vehicles

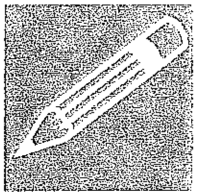
      v) Other Machinery & Equipment

      vi) Any other leased or rented items

   b) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column for each category.

   c) The total relevant costs for this worksheet will carry forward to Line E-Lease/Rental of Schedule B– Mini-Model" (see page X-24).

5) **Other Direct Costs.** Use the Other Direct Costs Worksheet (see page X-29) to enter the remaining major cost categories that may be required to provide the Target Function.

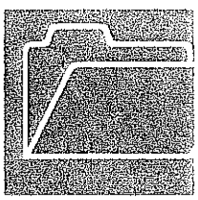


a) **Insurance.**

i) Determine the full insurance expenditures and record in the "Total" column for the appropriate period.

ii) Establish whether any of these insurance costs are unavoidable costs (costs that would continue to be incurred even if the State no longer provided the service). Enter the costs that would be eliminated into the relevant cost column.

iii) The total relevant insurance costs for each year will carry forward to Line F-Insurance of Schedule B "Total Direct Costs – Mini-Model" (see page X-24).

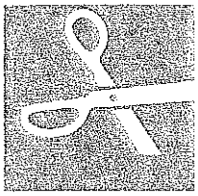


b) **Material & Supplies.**

i) Determine the material and supply costs necessary to provide the Target Function. Enter the total for the current year.

ii) Determine whether any of these costs are unavoidable costs (costs that would continue to be incurred even if the State no longer provided the service). Enter the costs that would be eliminated into the relevant cost column.

iii) The total relevant materials & supplies costs for each year will carry forward to Mini-Model Schedule B, Line G-Materials & Supplies (see page X-24).



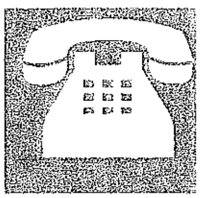
c) **Repairs & Maintenance.**

i) Calculate the cost incurred to keep buildings and equipment required for the Target Function in normal operating condition. Enter the total for the current year.

(1) For assistance in determining whether expenses are repairs and maintenance, or capital costs, please see the *State of Arizona Accounting Manual*, section G.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant materials & supplies costs for each year will carry forward to Line H-Repairs & Maintenance (see page X-24).

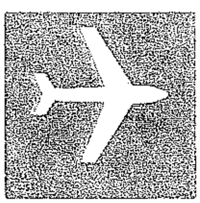


d) **Telecommunications.**

i) Calculate the charges associated with telegrams, cablegrams, pagers, beepers, mobile phones and telephones needed to provide the service. Enter the total for the current year.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant telecommunications costs for each year will carry forward to Line I-Telecommunications of Schedule B– Mini-Model" (see page X-24).

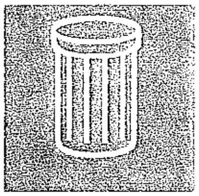


e) **Travel.**

i) Calculate the transportation and subsistence charges for in-state and out-of-state travel required for completion of the Target Function and enter them for the current year.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant telecommunications costs for each year will carry forward to Schedule B – Mini-Model, Line J-Travel (see page X-24).



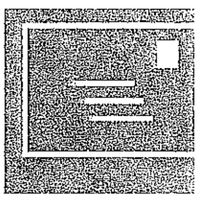
f) **Utilities & Related Expenditures.**

i) Calculate the total utility costs for the current year. Utilities include any electricity, waste disposal, fuel oil & bottled gas, natural gas and water required to provide the Target Function.

(1) The amount entered should be the **actual cost** to the State for the utilities. Some entities may be subsidized, but you must itemize costs from a "total cost to the State" perspective.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

iii) The total relevant telecommunications costs for each year will carry forward to Line K-Utilities of Schedule B "Total Direct Costs – Mini-Model" (see page X-24).



g) **Other.**

i) Calculate any directly attributable costs for the current year that do not fit into one of the other categories here. This includes advertising, postage or delivery, printing or photography, books, etc.

(1) Provide a supporting worksheet identifying what costs are included.

ii) Determine whether any of these costs are relevant (avoidable) costs and enter them into the relevant cost column.

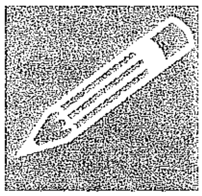
iii) The total relevant other costs for each year will carry forward to Line L-Other (see page X-24).

Once you have completed each of these steps, all relevant costs from each of the Direct Cost categories should show on Schedule B for the Mini-Model. This total will carry forward to Schedule A " Total Cost Comparison – Mini-Model" Line A (see page X-23).

Review Calculated Indirect Costs

Indirect Costs are costs that are incurred to benefit several services/activities, including the Target Function. The Mini-Model calculates Indirect Costs using a pre-determined formula of 12% of the total direct costs. You do not have to take any action. However, you may want to review the result displayed on Line B – Indirect Costs on Schedule A "Total Cost Comparison – Mini-Model." (See page X-23.)

Determine In-House Adjustments

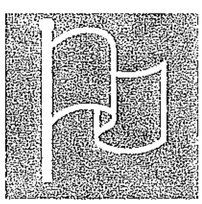


You have now documented the in-house direct relevant costs for the Target Function, and the system has calculated an indirect cost amount. If your agency requires special adjustments for any special reasons, enter them in the in-house adjustment category of Mini-Model Schedule A-Total Cost Comparison. **You must document all adjustments in a supporting worksheet.** Make a special effort to ensure that no costs included in this category are duplicative and that all costs are relevant to the service.

Before presenting the in-house costs to the Office for Excellence in Government (OEG) for review, your agency management should review the analyses completed to date. Management should have a high degree of comfort with the in-house costs before forwarding it for review. Make any requested revisions before the in-house costs are submitted to OEG.

Submit to OEG for Review

Once you have completed the analysis of the Target Function, OEG will review your assumptions, in-house cost history and contract period estimates.



Reporting Milestone

Submit the **Target Function** packet to OEG. This package should include the following items:

1. Cover letter addressed by the Agency Director. Samples are available from OEG
2. Project Scope of Work description (and related Performance Monitoring, Transition, and Personnel Plans)
3. In-House Cost worksheets and Supporting Documentation

The independent review by OEG focuses on determining that the in-house numbers presented appear reasonable. This may include, but is not limited to, an examination of the completeness of accounting for historical costs, analysis of overhead allocation methodologies, review of the rationale supporting the contract term projections, and on-site review. This may be an iterative process. OEG will return any discrepancies noted during the independent review to the agency for resolution. Larger projects may initially submit cost sections piecemeal, to allow OEG to begin their review during the compilation. This may facilitate more timely changes, should any be necessary. It is important to note that OEG's "reasonableness" review should not be construed as an audit.

Seal the In-House Costs

Once OEG has reviewed and approved the agency's in-house costs, you need to secure the costs while the Request for Proposal process is completed. You should now submit a printed copy of the approved in-house cost worksheets, along with the cost model diskette, to the Agency procurement office or officer. Procurement will date and time stamp the worksheets and seal them until the procurement process identifies the outside bidder with the most advantageous proposal.

Why do we seal the in-house cost analysis?

Sealing the in-house cost estimates allows your agency a fair opportunity to retain the Target Function in-house. A key component of the Competitive Government Program is to identify the best option for the State. Sealed costs help to ensure that both the State and the private sector base their respective estimates on internal strengths and resources. Competitive Government assumes comparisons based on the requirements to provide the service, not on the existing cost structure.

Important Note

It is your agency's responsibility to ensure that additional copies of these costs are not available for viewing, accidental or otherwise.

NOTES

Chapter 5

V. Decision Making

At this point, your agency has completed the in-house cost analysis for your selected Target Function. This analysis is, in effect, your "sealed bid" for providing the service. Now it is time to continue with the competitive process. There are several steps during this stage. These include:

- Releasing the Request for Proposals (RFP)
- Evaluating Proposals and Selecting a Vendor
- Comparing the Vendor's Cost with Your Sealed In-House Cost Analysis
- Selecting the Future Provider (Private Company or Your Agency)
- Implementing the Decision

This chapter discusses these steps and your role in each.

Releasing the Request for Proposals (RFP)

A Request for Proposals (RFP) is a formal statement that your agency is proceeding with a competitive effort. The Procurement Officer will use information gained from any Pre-Planning Meetings, along with the Scope of Work, Performance Monitoring, Personnel, and Transition Plans to prepare and issue an RFP. If your agency does not have a Procurement Officer, or the scope and expected value of the service contract is outside your agency's procurement authority, contact the State Procurement Office for assistance.

To assist with the RFP development, provide the Procurement Officer with the specific Target Function elements for the RFP. Your up-front work concerning transition, personnel and performance monitoring issues should be helpful elements for compiling the RFP.

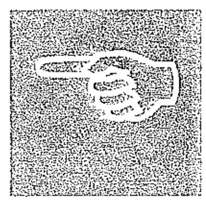
What is the Procurement Officer's role?

The Procurement Officer assumes the responsibility for ensuring that the RFP follows the appropriate format and includes the correct terms and conditions. The Procurement Officer will also oversee the proposal evaluation and award process.

What is your role?

You will be responsible for reviewing drafts of the RFP and ensuring that the specifics for delivery of the Target Function are reflected.

The Scope of Work in the RFP must be identical to the one that the agency used to accumulate their in-house costs. Refer to A.R.S. § 41-2534 for specific requirements of the RFP and its process.



Evaluating Proposals and Selecting a Vendor

Proposals received in response to the RFP must be handled as stipulated by the State Procurement code. The Procurement Officer will oversee this process.

An evaluation committee is usually responsible for evaluating each of the proposals according to pre-defined criteria. The Procurement Officer can assist you with identifying evaluation committee members and the various steps to use in the evaluation process. Once the committee completes its evaluation, it will provide Procurement with a recommendation regarding the most advantageous offeror(s). This offeror's proposal is compared with your agency's "bid" and becomes the basis for any resultant contract awards.

Once the Procurement Officer has indicated the selected offeror, the Resource Member will begin completion of the Cost Comparison Model.

Completing the Cost Comparison

The purpose of the cost comparison is to provide information to assist your agency Director in making a "make or buy" decision. The Resource Member, with OEG assistance, will use the sealed agency in-house costs, and the information from the offeror selected by Procurement, to complete the Cost Comparison Model. In many cases, only minor cost adjustments will be required to make the comparison.

Reminder

It is important to note that the Resource Member is responsible for ensuring that all proposal information is kept confidential until a decision is released by Procurement. His or her signed "**Conflict of Interest and Confidentiality Statement**" legally prohibits the Resource Member from disclosing any offeror proposal specifics.

Recording Outside Provider Costs

As a Resource Member, you are responsible for recording the selected offeror's costs into the cost worksheets contained in the "Outside Costs" workbook. These costs include:

- Contractor Costs
- New Revenue Generated
- Contractor Support
- Contract Monitoring
- Potential Revenue Generated from Asset Sales
- Conversion Costs
- Personnel Conversion Costs
- Any Additional Conversion Costs

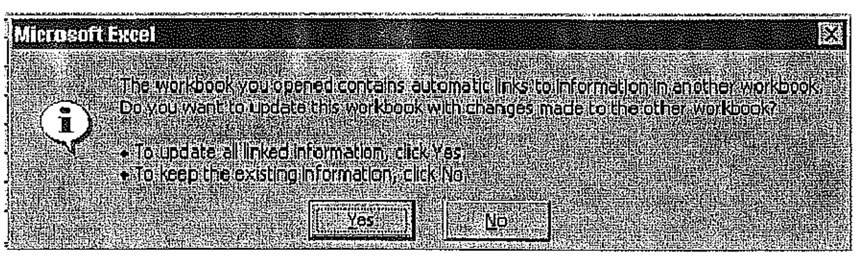
Note

When using the cost model worksheets, some cells may initially read "#DIV/O." If this occurs, check Schedule A – Total Cost Comparison and make sure that item B3 – Contract Term is completed.

The Outside Costs Workbook

To begin, open the "Outside Cost" workbook.

1) When you open the file, the system will prompt you with the following message:



Be sure to answer "Yes" so that links to information in the other workbooks will be activated.

2) The Agency name and Target Function should have carried over from the "Total Cost Comparison" workbook.

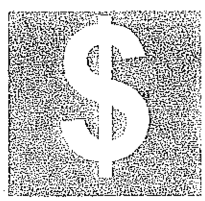
3) Click on the appropriate tabs for each worksheet and complete the outside cost information on each. You will need to enter the "Prepared By" field separately for each worksheet.

   Your entries will automatically transfer to the "Total Cost Comparison" workbook if you answered "Yes" to enable the automatic links.

A. Recording Operating Costs

The first three outside provider costs you calculate and enter into the worksheet are ongoing "operating" costs that will continue for the life of the contract. These include Contractor Costs, Contractor Support, and Contractor Monitoring.

CONTRACTOR COSTS



The Contractor Costs Worksheet (see page X-14) totals the contract price, revenue decreases and increases, lost grants or subsidies, and other miscellaneous costs associated with the contract. Enter these costs separately for each of the years in the contract period.

Contract Price – Enter the contract price included in the cost comparison, as supported by a written offer submitted by the selected vendor in response to an RFP.

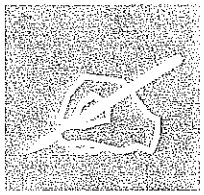
What is included in "Contractor Costs"?

Revenue Decreases - Calculate any decreased revenue to the State as a result of transferring the service to the contractor. Consider a situation where the State receives $100 in user fees each year for a park. If an outside provider operates that park, the State may no longer receive those fees. In order to examine the total cost to the State, that $100 should be added to the contractor's cost.

Lost Grants or Subsidies - If the State will lose any grants or subsidies as a result of transferring the service to the contractor, enter the amounts into the worksheet.

Other Contractor Costs - Include any additional predicted or known contractor costs that cannot be included on any of the other worksheets.

NEW REVENUE GENERATED



The next cost entered is New Revenue Generated for each of the years of the contract period. The New Revenue Generated Worksheet (see page X-15) accounts for any additional revenues that the State will receive by contracting the Target Function to the private sector. You can also use this worksheet to itemize any recurring "credits" (reductions) that should be noted on the bid.

The following are some examples of types of revenue the State may gain based on award of the Target Function to an outside vendor:

How can the State gain new revenue?

- **Tax Revenues** - If the private contractor is a for-profit entity, the State may be entitled to new tax revenues. State and corporate income, sales, and some proportion of property taxes would be owed. For this model, the State tax amount is set at 2% of the contract amount.

- **Pass Through Fees** - Some proposals may include pass through of a portion of any user fees collected by that provider. Include an estimate of yearly pass through income.

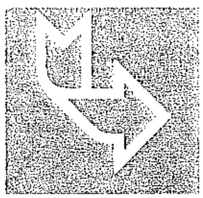
- **Release of Leased Space** - If you are able to move an entity out of some space rented from the private sector into the space vacated by the Target Function, the agency/State may expend less on rent. Itemize any predicted savings from this move on this worksheet.

- **Investment Interest Lost** – If the state were to retain the Target Function in-house and buy new capital equipment, the funds used to purchase that equipment would no longer be available for investment. When the Target Function is outsourced, the state does not have to purchase new equipment and does not, therefore, have to forego investment incomes. *Although this is not "New Revenue," it has the effect of revenue and should be treated as a reduction to the vendor's bid.*

As you complete the worksheets, you need sufficient documentation to withstand public scrutiny for each entry. Therefore, you may need supporting worksheets or narratives for these line items. The total of this worksheet carries forward on the "Credit for New Revenues" line of the Contractor Costs Worksheet (see page X-14). This amount is a credit against the contract price.

The Contractor Costs Worksheet total for each review period carries forward to Schedule A –Total Cost Comparison, Line E – Contractor Costs (see page X-3).

CONTRACTOR SUPPORT

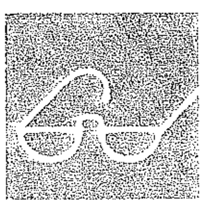


When ongoing government operations are transferred to a private or public contractor, the governmental provider may lend the contractor existing program facilities, equipment or, occasionally, staff. Your agency may also plan to retain responsibility for certain support services such as data processing or technical assistance.

Uses the Contractor Support Worksheet (see page X-16) to account for any support costs the state has agreed to provide if the Target Function is delivered by another party. These obligations probably would have been agreed to and noted in the RFP.

The system amortizes the total contractor support over the contract term. This amortized amount carries forward to Schedule A – Total Cost Comparison, Line F – Contractor Support (see page X-3).

CONTRACT MONITORING



Contract Monitoring and administration costs are those costs the state must incur to administer the contract should it be awarded to a private sector contractor. These costs may include invoice processing, site visits to examine contract compliance, contract closeout operations and ongoing contractor performance evaluation. It also includes the costs to negotiate, prepare, and award the contract. Of course, the type of service privatized will have an effect on the level of monitoring required.

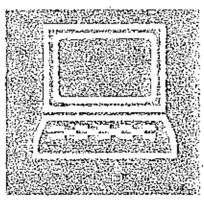
Uses the Contract Monitoring Worksheet (see page X-17) to enter both personnel and other types of costs associated with monitoring. The worksheet calculates an annual monitoring cost that carries forward to Schedule A, Line G – Contract Monitoring. (See page X-3.)

Once you records the Contractor Costs, Contractor Support, and Contractor Monitoring amounts, the system calculates the total operating costs for each year of the contract period and reflects this amount on Line H – Total Operating Costs on Schedule A.

B. Recording One-Time Conversion Revenues and Costs

Earlier in the handbook we addressed the concept of transferring the Target Function from your agency to a private vendor. At that time, you created a Transition Plan. Transitioning to a new vendor may result in new revenues and/or costs to the State. Each of these should be identified to help ensure the model takes into account the total impact. These one-time items include: Revenue Generated from Asset Sales and Conversion Costs.

REVENUE GENERATED FROM ASSET SALES

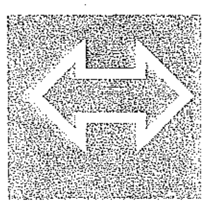


If the Target Function is transferred to a private contractor, the state may receive additional one-time revenues as a result. A decision to contract may allow the state to dispose of or transfer some assets.

The Potential Revenue Generated – Asset Sales Worksheet (see page X-18) can help with any asset conversions. If a net gain on the sale/transfer results, this will be considered a reduction to the cost of the contract. Conversely, a net loss on the asset will be considered an additional expense to the cost of the contract.

Compute the total asset conversion gain/(loss) and enter the amounts into the worksheet. The system will amortize the gain/(loss) over the term of the contract. The amortized portion carries forward to Schedule A, Line I – Revenue Generated-Asset Sales. (See page X-3.)

CONVERSION COSTS



The Total Conversion Costs Worksheet (see page X-19) summarizes the one-time conversion costs that may occur during the transfer of the service to the contractor. The majority of these may be labor related (personnel) costs. However, other costs such as material transfer, penalty fees for early termination of rent agreements and data conversion costs are also considered one time conversion costs. Two supporting worksheets, Personnel Conversion Costs and Additional Conversion Costs, are included to aid in calculation of the conversion costs.

The system amortizes conversion over the contract term. The amortized total conversion costs will be entered on Schedule A, Line J – Conversion Costs (see page X-3).

How do you determine Personnel Conversion Costs?

Earlier in the process, you completed a Personnel Plan. (See page III-3.) This plan detailed the structure envisioned if the service was transferred to the private sector. Use that document to guide you during the completion of this cost section.

Enter each position that would be displaced by the proposed service transfer to the contractor on the Personnel Conversion Costs Worksheet (page X-20).

The key to whether the cost is relevant to the decision will be the ultimate disposition of the employee in the position. Use the following expected disposition codes:

RT	Retire
TRA	Transfer to another program within the department
TRB	Transfer to another department
JOB	Hire by the successful contractor
RIF	Involuntary Separation

Each of these disposition codes may result in personnel conversion costs for the privatization effort. You must document the reasons for costs associated with this disposition.

The total conversion costs should only include those positions that will result in some form of buy-out. Include any amount attributed to the benefit derived for accumulated sick leave balance of 500 hours or more upon retirement directly from state service. Refer to the *State of Arizona Accounting Manual,* Section II-R for a reference on benefit value calculations.

The total personnel conversion costs carry forward to the Total Conversion Costs Worksheet (see page X-19).

What other Conversion Costs might exist?

Other conversion costs include any potential data conversion costs and material transfer costs. It also may include costs related to terminating rental or lease agreements and the costs of under-utilization of equipment and buildings. The transition may also require a period of time in which the State simultaneously performs a portion of the newly transferred service.

Use the Additional Conversion Costs Worksheet (see page X-22) to account for any additional one-time costs associated with transferring the service to the contractor. Also record the costs for any duplication of effort during transition. Finally, enter any other known conversion costs.

The total additional conversion costs carry to the Total Conversion Costs Worksheet (see page X-19). These costs in turn carry forward to Schedule A – Total Cost Comparison, Line J-Conversion Costs.

Schedule A adds any revenue generated from asset sales and the conversion costs to determine the total one time costs. This is reflected on Line K – Total One-Time.

Making the Comparison

Once you have entered all the costs above, Schedule A will add all of the costs associated with the private provider. Line L – Total Outside displays the total cost of delivery of the Target Function by the outside vendor.

Now you can make a true cost comparison. The cost model uses a two-tiered decision approach to determining whether acceptance of a private contractor would be advantageous. **The underlying premise is that a minimum savings level should be projected before a service is shifted to the private sector.**

How do you make the cost comparison?

First Decision Tier

This level compares private contractor operating costs to the in-house cost for providing the service. At this point, do not include any conversion or one-time costs. Use the "Total Contract" column of Schedule A for this comparison. (See page X-3.) Compare Line D-Relevant In-House to Line H-Total Operating. If Line H is not at least 10% less than Line D, the outsourcing may not be cost effective. You should, however, consider the 10% savings as a guideline. For larger, multi-year contracts, it may be advantageous to outsource with only a minimal per-year savings.

Second Decision Tier

Next, you need to compare the total cost of outside provision of service to the total in-house costs for the contract period. This comparison DOES include the conversion/one-time costs in the analysis. Use the "Total Contract" column of Schedule A also for this comparison. Compare the contract term total of Line L-Total Outside with Line D-Relevant In-House. If Line L is less than the in-house costs for the same period (total of Line D), then the outside provider appears to be the most economical provider of the service.

At this point, OEG should review your full analysis. You may need to submit any recent revisions you have made to the cost models.

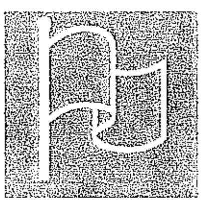
Once OEG completes their review, you are ready to submit your results to your Agency Director. As the Agency's Resource Member, you are now in a position to make recommendations concerning the actual contract award. Draft a statement documenting the results of the analysis. Send one copy to your Agency Director and another copy to Procurement.

Selecting the Future Provider

Using all the information gathered to date, your Agency Director will determine whether the Target Function should remain in-house or should be contracted to the offeror. He or she should notify OEG of his/her decision.

The Agency Director will give Procurement the direction whether or not to award the contract to the outside provider. If the Competitive Government Process reveals the private sector to be a more cost-effective provider of the Target Function, the outside provider should be awarded the contract. However, if the Agency Director believes that there is a compelling reason not to outsource (e.g., negligible expected savings, severe burden on state employees, etc.), the Target Function may remain in-house. The Agency Director must, however, provide a written, detailed justification of this decision to OEG. **Furthermore, if a compelling reason not to award the contract to an outside provider is demonstrated, the Agency Director must present OEG with a plan for bringing costs in line with the private sector.**

Reporting Milestone



Submit the **Summary Decision** packet to OEG. This package includes the following items:

- A memo from the Director outlining the agency's decision.
- A copy of the completed Schedule A "Total Cost Comparison" from this Target Function analysis.

For those cases in which the decision is to retain the function in-house, contrary to the study indications, then also include the following with the Summary Decision packet:

- The agency's justification for retaining the function
- The agency's plan to bring its costs of performing the Target Function in line with those offered by the private sector

Implementing a Decision

The agency Director's decision on the effectiveness of outsourcing a Target Function (based on the preceding cost models) determines which of the next two strategies should be employed: Agency Implementation or Award Contract to Private Sector.

Implementation

To continue providing the Target Function, the agency must implement any and all changes reflected in its in-house cost calculations. The Office of Strategic Planning and Budgeting analyst assigned to the agency may help the agency reflect the in-house costs in its budget.

Awarding Contract to Private Sector

At the agency director's discretion, Procurement will award the contract to the selected offeror. Once procurement has completed the contract award, the agency should notify the general public, as well as all the interested parties, of the final decision.

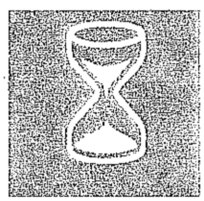
NOTES

Chapter 6

VI. Monitoring Performance

Whether your agency privatized the Target Function or kept it in-house, you will be responsible for monitoring results. In the early stages of the Competitive Government process, you developed a Performance Monitoring plan. It's now time to put that plan into action. Additionally, you need to fulfill Competitive Government Program reporting requirements.

Annual Performance Reviews



Each completed Competitive Government project will require, at a minimum, a formal annual review. If the Target Function was outsourced, your agency completes the review and submits results to OEG. If the Target Function was kept in-house, OEG may complete the review with agency assistance. In addition to tracking progress on individual Competitive Government projects, OEG will use the information collected to further refine the Competitive Government Program.

Whether undertaken by the agency or by OEG, the annual review will provide important information on whether or not the Target Function should be competitively bid again in the future or whether it should stay with the current provider. The review should include the elements on the following table:

Background	• A brief description of the Target Function and a discussion of how the current provider was selected.
Cost Analysis	• Under the current provider, have there been problems with cost overruns? • If so, what corrective actions have been taken? Are cost overruns likely to be a continuing problem? • Have there been any cost savings since the agency or private provider was selected to perform the Target Function (compared to historical performance in the case of a service kept in-house, and compared to the agency's bid in the case of an outsourced service)? • In what areas might there be some potential for additional savings?
Problems and Advantages	• What are the major known problems, if any, with the provider's performance of the Target Function? • If a state agency is providing the Target Function, what advantages are there to having the agency provide the Target Function rather than the private sector? • If the private sector is providing the Target Function, what advantages are there to having the private sector provide the Target Function rather than a state agency?
Performance	• Is the agency or the private provider meeting the performance targets specified in the Performance Monitoring Plan? • If not, what corrective actions has it taken? Are the performance targets still reasonable, or do they need to be adjusted? • Has performance generally improved since the agency or private provider was selected to perform the Target Function? • In what areas might there be some potential or further performance improvement?
Overall Assessment	• Considering the preceding questions, how has the provider's overall performance been with respect to the Target Function? • Should the function again be opened to competition, or should it stay with the current provider? • If it should stay with the current provider and the current provider is a private vendor, do any changes need to be made in the contract?

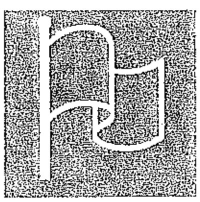
Ongoing Performance Reviews

Once a program contract has been awarded, it is critical that the agency continuously monitor the progress of the provider to ensure compliance with the contract. Monitor providers on at least a quarterly basis for both cost and quality. These reviews will provide the background for agency decisions on contract continuance. Reviews should seek to answer the following questions:

- Customer Satisfaction - Does the data prove that the contractor has met and/or improved the level of service against the original service benchmark?

- Cost Savings - Are the cost savings projected in the original proposal being realized? Can these cost savings be accelerated in the following years?

Based on the answers to the questions, should the contract be continued as is, be amended, or be terminated? If terminated, should the service remain in the competitive arena and a new contractor be employed, or should the service delivery revert back to the State?



Reporting Milestone

Submit **Annual Review** results to OEG for the length of the contract period.

NOTES

Appendix A

VII. Glossary

Asset Transfers The sale and/or trade of fixed assets (land, buildings, right-of-way, etc.) by the State to a private for-profit or not-for-profit entity.

Audit trail A numerical record (including associated text) of transactions that can be logically traced to determine a financial history.

Best-and-Final Offer Mechanism embodied in Request for Proposal document that allows for competitive negotiation. A best and final offer is normally extended after a formal question and answer conference, or after discussions with one, some, or all of the offerors submitting a proposal.

Competitive Government Utilization of the concepts of free market functioning to enhance the cost and operational effectiveness of government service delivery.

Competitive Government Profile The qualitative analyses used to evaluate the privatization potential of a government service.

Contract Period A period of time (e.g. one (1) year with renewal options as required) set forth in the Request for Proposal and stated at time of contract award; usually stated on the "Offer and Contract Award" document.

Contracting -- Exclusive or Multiple	A service delivery method by which the government partners, by written agreement, with one or more entities, to provide all or part of the service delivery system.
Contractor	An individual or organization having a contract with a governmental body.
Core Business	Those activities that 1) are based on proprietary knowledge and skills; 2) relate directly to understanding and serving customers; and 3) are shaped by the agency's values and strategic policy.
Depreciation	1) Expiration in the service life of fixed assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and obsolescence; 2) the portion of the cost of a fixed asset, other than a wasting asset, that is charged as an expense during a particular period.
Depreciation Level	The base level established by an agency for depreciation within a year. Items that are below the depreciation level amount are treated as an expense. Items that are above the depreciation amount are depreciated.
Direct Costs	Costs specifically related to the Target Function. If the Target Function ceased to exist, the direct costs would also cease. An example would be any personnel expenses for employees working on the Target Function. Direct costs may require an allocation formula within the cost model, depending on the size of the Target Function being examined and the level of detail available in the accounting system.
Full Time Equivalent (FTE)	An employee who works a minimum of 2080 hours per year based on a 40-hour work week.
Indirect Costs	Costs that are incurred for the benefit of more than one Target Function, e.g., the centralized accounts payable unit that processes payments for a group of activities/functions. Indirect costs are usually allocated based on a formula.

Managed Competition	A process whereby a state agency can complete with outside firms to provide a particular service or program at the lowest cost. This is a synonym for Competitive Government.
OEG	Governor's Office for Excellence in Government
OSPB	Governor's Office of Strategic Planning and Budgeting
Outcomes	Measurement of the impact on people's perception of the environment (e.g., number of fatal accidents per number of highway miles, families' satisfaction with the care given mentally ill patients).
Outputs	The number of work units achieved (e.g. number of miles paved, number of customers served).
Procurement Pre-Planning Meeting	A mutually non-binding, open meeting attended by interested individuals and organizations to discuss current trends in the business community and to afford the State of Arizona the opportunity to acquire such information as a tool to assess their current or proposed operations. This type of conference is strictly a voluntary and an informational activity designed to assist the State Agency in their review of the Target Function.
Rationale	The underlying reasons for making a particular decision.
Reengineering	A process by which an organization's operations are evaluated, restructured and streamlined to improve efficiency and effectiveness. Reengineering, which may involve changes to processes, technology, procedures, and organizational and management structures, is one technique an organization can use to become more competitive.
Relevant Costs	Those Target Function costs that would be eliminated if the Target Function were transferred from the State to another provider.

Request for Proposal (RFP) A competitive solicitation method utilized to contract for professional services or goods. Proposals, submitted by qualified offerors, are evaluated based upon criteria stated in the RFP, and contract(s) awarded to the offeror(s) who are to be the most advantageous to the State. All documents, whether attached or incorporated by reference, are considered part of the offeror's proposal and any resultant contract.

Resource Member A member of the agency who is designated to complete the cost comparison using the outside response. **This person is legally responsible for ensuring that specific information concerning outside and in-house proposals is kept confidential until a contract is awarded.**

Right-of-First-Refusal A contract clause that requires a contractor to offer employment to displaced state employees before going into the open marketplace to meet employment needs.

Salvage Value The estimated value of a depreciable asset at the end of its useful life. (Sometimes also referred to as "residual value").

Service Shedding The term used to describe those situations in which the Government elects to discontinue a service without identifying a replacement supplier.

State Procurement Office (SPO) Centralized procurement concentrated in an administrative unit, established by legislative authority. This unit has the authority, responsibility, and control of public procurement activities by means of oversight and enforcement of compliance issues pursuant to the Arizona Procurement Code. In addition, applicable law, mandates, and procedures are intended to provide for economical expenditure of public monies and must be followed by state agencies.

Target Function An agency service or program that has been selected for analysis by the Competition Task Team.

Unavoidable Costs	Costs that benefit the Target Function and will not be eliminated if the Target Function is provided by another entity. An example may be payroll processing. If the Target Function is not significantly large, no reduction in the FTE required to process payroll would occur.
Useful Life	The estimated time period during which the depreciable asset is expected to be used by the agency or program.
Vouchers - Customer Selected Provider	A service delivery method by which the government provides the end-user (customer) with a service voucher for a specified amount. The customer selects any private entity (provider) that provides the desired goods or service.
Vouchers - Government Selected Provider	A service delivery method by which the government contracts with one or more private providers to provide all or part of the service. The customer then selects one of the providers to provide the needed service.

NOTES

Appendix B

VIII. Competitive Government Opportunities

The table on the following pages identifies some of the services and delivery methods that may provide you with ideas for how to begin the Competitive Government process in your agency. The Office for Excellence in Government also has identified services that have been successfully privatized by state agencies in Arizona and elsewhere. OEG will also gladly help you to identify specific opportunities for competition.

COMPETITIVE GOVERNMENT OPPORTUNITIES			
	Service Delivery Methods		
	Contracting	Vouchers	
AGENCY AND GOVERNMENT SERVICE TYPE	Exclusive or Multiple	Government Selected	Customer Selected
ADMINISTRATIVE/GENERAL			
Accounting	x		
Architectural Service	x		
Asbestos Removal	x		
Auditing	x		
Building Construction	x		
Building Inspections	x		
Central Stores	x		
Civil Service Arbitration	x		
Civil Service Testing/Training	x		
Computer Maintenance	x		
Computer Systems Design	x		
Custodial Services	x		
Data Collection	x		
Data Processing	x		
Employee Benefit Administration	x		
Engineering Services	x		
Facility Maintenance	x		
Fleet Operations & Maintenance	x		
Health Screening of Employees	x		
Information Services	x		
Legal Services	x		
Mail/Courier Services	x		
Moving Services	x		
Museums	x		
Pest Control	x		
Printing	x		
Recreational Facilities	x		
Security	x		
Snow Removal	x		
State Employee Insurance	x		
State Parks	x		
Technical Consulting	x		

COMPETITIVE GOVERNMENT OPPORTUNITIES			
	Service Delivery Methods		
	Contracting	Vouchers	
AGENCY AND GOVERNMENT SERVICE TYPE	Exclusive or Multiple	Government Selected	Customer Selected
Telecommunications	x		
Undeveloped State Owned-Land	x		
Workers' Compensation Administration	x		
CORRECTIONS			
Alcohol & Drug Treatment	x		
Clinical Assistance	x		
Community Board and Care Centers	x		
Community Correction Centers	x		
Correctional Facilities Construction	x		
Correctional Industries	x		
Court-ordered Monitoring	x		
Developmentally Disabled Programs	x	x	x
Education/Training of Inmates	x		
Employee Assistance Program	x		
Facility Inspections	x		
Food Services	x		
Halfway Houses	x		
Health/Dental Care	x	x	x
Juvenile Detention Centers	x		
Laboratory Services	x		
Laundry	x		
Medical Services at Institution	x		
Medical Waste Disposal	x		
Pharmacy	x		
Prison Operations	x		
Religious Services	x		
Transportation of Prisoners	x		
Work Release Programs	x		

COMPETITIVE GOVERNMENT OPPORTUNITIES			
	Service Delivery Methods		
	Contracting	Vouchers	
AGENCY AND GOVERNMENT SERVICE TYPE	Exclusive or Multiple	Government Selected	Customer Selected
EDUCATION			
Academic Grant Programs	x		
Bibliographic Services	x		
Bookstores at State Universities	x		
Bus Transportation	x		
Cafeteria Management	x		
Counselors/Psychologists/Social Workers	x	x	x
Donated Food Distribution	x		
Dormitories at State Universities	x	x	x
Education of Drop-outs	x	x	x
Educational Conferences	x	x	
Food Services at State Universities	x		
Hearing Officers (lawyers)	x		
Laundry Services	x		
Management of Individual Schools	x		
On-line Cataloging	x		
Program Evaluations	x		
Public Information Services	x		
Regional Libraries	x		
School Food Purchasing	x		
Specialized Instruction	x	x	x
Statewide Data for Libraries	x		
Statewide Data System	x		
Technical Consulting	x		
Test Scoring	x		
Testing Teacher Competence	x		
Therapists	x	x	x

COMPETITIVE GOVERNMENT OPPORTUNITIES			
	Service Delivery Methods		
	Contracting	Vouchers	
AGENCY AND GOVERNMENT SERVICE TYPE	Exclusive or Multiple	Government Selected	Customer Selected
HEALTH			
AIDS Program	x		
Air Quality	x		
Clinics	x		
Domestic Violence Services	x	x	x
Drug & Alcohol Treatment	x	x	x
Environmental Health	x		
Family Planning Services	x	x	x
Health Maintenance Organizations	x	x	x
Hospital Operation	x		
Infant Mortality Reduction	x		
Injury Prevention Services	x		
Laboratory	x		
Lead Poisoning	x		
Medicaid Processing	x		
Primary Care	x	x	x
Research and Development	x		
Resource Recovery	x		
Sexual Assault Services	x	x	
Toxic Waste Clean-up	x		
Waste Water Treatment	x		
WIC program	x		
MENTAL HEALTH			
Case Management	x		
Community Living Support Services	x	x	x
Court Reporting	x		
Developmentally Disabled Services	x	x	x
Education Services for Patients	x	x	x
Expert Witnesses	x		

COMPETITIVE GOVERNMENT OPPORTUNITIES			
AGENCY AND GOVERNMENT SERVICE TYPE	Service Delivery Methods		
	Contracting	Vouchers	
	Exclusive or Multiple	Government Selected	Customer Selected
Food Services at Institutions	x		
Laundry Services	x		
Management of Facilities	x		
Medical Services at Institutions	x		
Medical Waste Disposal	x		
Mental Health Services	x	x	x
Nursing Home Services	x	x	x
Parent Support and Advocacy	x		
Pharmacy Services	x		
Psychiatric Services	x	x	x
Specialized Foster Care	x	x	x
Therapists	x	x	x
Transportation and Ambulance Services	x	x	x
Youth Group Homes	x	x	x
Youth Services	x	x	x
SOCIAL SERVICES			
Adoption Programs	x	x	x
Advocacy Services	x		
Cash Issuance	x		
Child Care	x	x	x
Child Support Enforcement	x		
Child Welfare Services	x		
Client Assessment/Evaluation	x		
Consultants/Specialists	x		
Day Care Programs	x	x	x
Delinquent Youth	x		
Domestic Violence	x		
Drug & Alcohol Treatment	x	x	x
Educational Services	x	x	x
Emergency Shelters	x	x	

COMPETITIVE GOVERNMENT OPPORTUNITIES			
	Service Delivery Methods		
	Contracting	Vouchers	
AGENCY AND GOVERNMENT SERVICE TYPE	Exclusive or Multiple	Government Selected	Customer Selected
Family Assistance Management	x	x	x
Family Planning Services	x	x	x
Food Services at Institutions	x		
Food Stamp Issuance	x		
Foster Care	x	x	x
Health Maintenance Organizations	x	x	x
Independent Living Support Services	x	x	x
Legal Services	x	x	
Medical Claim Payments	x		
Occupational Therapy at Nursing Homes		x	
Pharmaceutical Claims Processing	x		
Physician Services at Nursing Homes	x		
Pre-admission Screening	x		
Programs for the Elderly	x		
Psychological Testing	x		
Refugee Services	x		
Rehabilitation Services	x	x	x
Return of Runaways	x		
Services for the Disabled	x	x	x
Teen Pregnancy Prevention	x		
Transportation of Clients	x	x	x
Vocational Rehabilitation Services	x	x	x
Welfare Services	x	x	x
TRANSPORTATION			
Airports and Concessions	x		
Architectural Services	x		
Bridge Rail Repair	x		
Fleet Operations and Management	x		
Grounds Maintenance	x		
Hazardous Waste Disposal	x		

COMPETITIVE GOVERNMENT OPPORTUNITIES			
	Service Delivery Methods		
	Contracting	Vouchers	
AGENCY AND GOVERNMENT SERVICE TYPE	Exclusive or Multiple	Government Selected	Customer Selected
Highway Designs	x		
Highway Maintenance			
Inspections	x		
Litter Prevention	x		
Map Sales	x		
Materials Testing	x		
Motor Vehicle Registry	x		
Public Transit	x	x	x
Railroad Maintenance/Inspections	x		
Rest Area Operation/Maintenance	x		
Road Kill Pick-up	x		
Road Maintenance	x		
Road Striping	x		
Security	x		
Sign Manufacturing	x		
Snow Removal	x		

Note: This list incorporates selected state programs/services privatized, as reported by The Council of State Government Privatization Survey, 1993

Appendix C

IX. Forms

This appendix contains the following forms to help you in the Competitive Government Process:

COMPETITIVE GOVERNMENT

Planning Document & Schedule

Action Step	Responsible Party	Target Date
1. Select Target Function	State Agency	________
2. Submit Target Function to OEG	State Agency	________
3. Create Competition Task Team	State Agency	________
4. Conduct Qualitative Analysis	State Agency	________
5. Submit Qualitative Analysis to OEG	State Agency	________
6. Develop draft plans for: • Scope of Work • Personnel Changes • Transition • Performance Monitoring	State Agency	________
7. Submit Scope and three plans to OEG	State Agency	________
8. Convene procurement pre-planning meeting	Agency / Procurement	________
9. Finalize Scope of Work	Agency / Procurement	________
10. Prepare In-House Cost analysis	State Agency	________
11. Submit Scope and Cost analysis to OEG	State Agency	________
12. OEG Review and approval of in-house costs	State Agency / OEG	________
13. In-House costs sealed & submitted to Procurement	Agency / Procurement	________
14. RFP completed	Procurement	________
15. Evaluation planning meeting	Agency / Procurement	________
16. RFP mailed (plus copy to OEG)	Procurement	________
17. Pre-proposal conference	Agency / Procurement	________

Action Step	Responsible Party	Target Date
18. Proposal Opening	Procurement	____________
19. Distribution of Proposals	Procurement	____________
20. Evaluation committee meetings	Agency / Procurement	____________
21. Question/Answer conference	Procurement	____________
22. Best & Final offer discussion (if necessary)	Procurement	____________
23. Discussion of selection	Agency / Procurement	____________
24. Review & approval of Evaluation Report	Agency / Procurement	____________
25. Compare costs; "in-house" and best "outside"	State Agency / OEG	____________
26. Select future provider	State Agency	____________
27. Submit to OEG for confirmation	State Agency	____________
28. Award of contract (if outside)	Procurement	____________
29. Agency implements organizational structure reflected by in-house costs (if staying within the agency)	State Agency	____________
30. Execute plans	State Agency	____________
31. Quarterly and annual performance reviews	State Agency / OEG	____________

COMPETITIVE GOVERNMENT PROFILE FORM

Strength of Competitive Market Profile

-6 ________ -4 ________ -2 ________ 0 ________ +2 ________ +4 ________ +6
Low Potential ... High Potential

Definition: Market Strength denotes the commercial characteristics of the Target Function. Private sector interest and ability to provide the service are key components.

Questions to Be Considered:

	Yes	No
• Are there multiple capable contractors available in the private sector?	+	-
• Are there multiple interested contractors?	+	-
• Is the nature of the financial commitment so large or small that potential contractors may not be interested?	-	+
• Will contracting out result in a private sector monopoly?	-	+
• Is the nature of the Target Function highly complex?	-	+
• Are the current state wages in this area, compared to the private sector or other state jobs, causing high personnel turnover?	+	-

Mitigation Suggestions If The Market Strength Does Not Promote Competition

- Share the responsibility for provision of the service among contractors or between the government agency and a single contractor.
- Expand the number of contractors to decrease the chance of a monopoly forming.
- Write RFPs to ensure multiple contractors and competition exists.
- Determine if long-term contracts can be written to facilitate recoveries of investments for contractors.
- Break down the size of the service into smaller projects. In high-risk services, pilot project contracts may be desirable before full-scale privatization is attempted.

COMPETITIVE GOVERNMENT PROFILE FORM

Quality of Service Profile

-6	-4	-2	0	+2	+4	+6
Low Potential						High Potential

Definition: Quality of Service reflects the expected effect privatization will have on the effectiveness, timeliness, thoroughness, etc. of the Target Function being considered for competition.

Questions to Be Considered:

	Yes	No
• Will quality decrease as a result of contracting out?	-	+
• Will contracting out compromise the public trust, safety, or welfare?	-	+
• Will contracting out threaten patient or client confidentiality or the ability to treat patients or clients with impartiality?	-	+
• Will accountability and responsiveness by the government be decreased by contracting out?	-	+
• Can well-defined quality objectives be included in a contract?	+	-

Mitigation Suggestions If The Quality of Service Profile Does Not Promote Competition

- The agency can place more emphasis on oversight for quality control.
- Include formal periodic customer ratings of the contractor's performance.
- Build in incentives to providers for quality service.

COMPETITIVE GOVERNMENT PROFILE FORM

Control Profile

-6	-4	-2	0	+2	+4	+6
Low Potential						High Potential

Definition: Control considers the government's ability to oversee the provision of the Target Function.

Questions to Be Considered:

	Yes	No
• Is it important for the agency to control the delivery of the Target Function?	-	+
• Does the government have the ability to develop and maintain control mechanisms over the Target Function if it is privatized?	+	-
• Is the quality and quantity of the Target Function relatively easy to measure?	+	-

Mitigation Suggestions If The Control Profile Does Not Promote Competition

- Increase control through detailed contract specifications.
- Require that the contractor maintain records that allow easy oversight and evaluation.
- Teach contract writing, management, and evaluation skills to employees charged with control, oversight, and monitoring.
- Develop a thorough monitoring plan before you implement the RFP and contract award phases.

COMPETITIVE GOVERNMENT PROFILE FORM

Risk Profile

-6 ________ -4 ________ -2 ________ 0 ________ +2 ________ +4 ________ +6

Low Potential — High Potential

Definition: Risk is the degree to which contracting out exposes the government to additional hazards, including legal and/or financial exposure, service disruption, corruption, and other risk factors.

Questions to Be Considered:

	Yes	No
• Are the chances high that the contractor(s) will fail to complete the contract(s)?	-	+
• Will the consequences of any service interruptions be major?	-	+
• Will there be increased legal exposure as a result of contracting out?	-	+
• Will contracting out result in an increased risk of corruption?	-	+
• Will contracting out result in risk sharing with the contractor?	+	-
• Will the contractor be able to indemnify the State?	+	-
• Will the contractor be singularly responsible for any and all cost overruns?	+	-

Mitigation Suggestions If The Risk Profile Does Not Promote Competition

- Write contract provisions to reduce the risk of service interruption, by including reporting requirements and/or liquidated damage clauses.
- Maintain ownership of capital equipment.
- Develop an emergency plan to deal with interruption of service.
- Rent critical equipment and facilities to the private company.
- Maintain a list of alternative providers.
- Slowly phase in privatization until it is certain that contractors are capable and reliable.
- Include cost adjustments into the contract for inflation and increased service requirements.

COMPETITIVE GOVERNMENT PROFILE FORM

Legal Barriers Profile

-6	-4	-2	0	+2	+4	+6
Low Potential						High Potential

Definition: The effect that any laws, statutes, or ordinances may have on a decision to contract out the Target Function.

Questions to Be Considered:

	Yes	No
• Is the mode of service delivery, government or private sector, mandated by law, statute, or ordinance?	-	+
• Must laws, statutes, or rules be changed to permit contracting out of the Target Function?	-	+
• Is contracting out compatible with the legislative, commission, or council intent that created the Target Function?	+	-

Mitigation Suggestions If The Legal Barriers Profile Does Not Promote Competition

- If the scale is tipped away from competing, the legal limits may relate to only small portions of a Target Function. If so, these portions of the Target Function might be separated from the privatization portion.

- If laws need to be changed, assess the difficulty of doing so. Is the legislative climate conducive to supporting change? Are there sponsors willing to support needed legislation?

COMPETITIVE GOVERNMENT PROFILE FORM

Political Resistance Profile

-6	-4	-2	0	+2	+4	+6
Low Potential						High Potential

Definition: Political resistance anticipates the amount of opposition to change in who provides the Target Function. This resistance can come from the public, users of the Target Function, interest groups, or public officials.

Questions to Be Considered:

	Yes	No
• Are concerned citizens, users of the Target Function, interest groups, or public/elected officials highly resistant to change?	-	+
• Do citizens, users of the Target Function, interest groups, or public/elected officials want the Target Function to be provided in-house?	-	+
• Does the Target Function have low overall political support?	+	-
• Is the Target Function currently having problems with in-house delivery?	+	-

Mitigation Suggestions If The Political Environment Does Not Promote Competition

- Reduce resistance by designing compromises in contracts or agreements.
- Reschedule implementation until a better time of year or date to avoid the resistance.
- Focus on services that government is not satisfactorily providing.
- Involve various groups in the decision-making process.

COMPETITIVE GOVERNMENT PROFILE FORM

Impact on Public Employees Profile

-6 ________ -4 ________ -2 ________ 0 ________ +2 ________ +4 ________ +6

Low Potential ... High Potential

Definition: The impact that contracting out will have on public sector employees.

Questions to Be Considered:

	Yes	No
• Will contracting out negatively affect public employees?	-	+
• Will a large number of public employees be affected?	-	+
• Will the contractors be required to hire displaced public employees?	+	-
• Will any public employees choose buy-out options?	+	-
• Will any public employees be involuntarily terminated	-	+
• Will civil service policies such as affirmative action be weakened as a result of contracting out?	-	+

Mitigation Suggestions If The Impact on Public Employee Profile Does Not Promote Competition

- Provide job transfers into other employment opportunities.

- Provisions can be written into contracts that ensure that the provider carries out some civil service policies, such as affirmative action and due process.

- Include a provision in the contract to ensure that the contractor gives displaced public employees the right-of-first refusal.

- Focus on new services that are not currently provided by government agencies.

- Provide employees with early retirement options.

COMPETITIVE GOVERNMENT PROFILE FORM

Resources Profile

-6 ________ -4 ________ -2 ________ 0 ________ +2 ________ +4 ________ +6

Low Potential ... High Potential

Definition: The efficient and effective use of government assets (e.g., personnel, funding) is reflected within this criterion. This includes in-house or private sector advantages in terms of professional expertise, facilities or equipment, time constraints, and state revenue or expenditure restrictions.

Questions to Be Considered:

	Yes	No
• Does the private sector have access to needed expertise that the government does not?	+	-
• Does the private sector possess needed facilities or equipment that the government does not?	+	-
• Are there other resource advantages that the private sector has that the government does not?	+	-
• Do time constraints exist that preclude in-house government delivery?	+	-
• Will contracting out reduce required completion times?	+	-

Mitigation Suggestions If The Resource Profile Does Not Promote Competition

- In cases in which the government has substantial equipment and facilities, examine whether selling or leasing is an option.
- Lease purchase agreements might be used so that the public agency eventually takes ownership of the resources.
- Resources might be shared among agencies for greater efficiency. For example, can agencies share a privately provided printing service and save money?
- Better planning by the agency may help to avoid resource inefficiencies.

Profile Summary Matrix

PROFILE	LOW POTENTIAL (PRO GOVERNMENT)			HIGH POTENTIAL (PRO PRIVATE)			WEIGHT 1 = low 4 = high	WEIGHTED SCORE
1. STRENGTH OF COMPETITIVE MARKET	-6	-4	-2	+2	+4	+6		
2. QUALITY OF SERVICE	-6	-4	-2	+2	+4	+6		
3. CONTROL	-6	-4	-2	+2	+4	+6		
4. RISK	-6	-4	-2	+2	+4	+6		
5. LEGAL BARRIERS	-6	-4	-2	+2	+4	+6		
6. POLITICAL RESISTANCE	-6	-4	-2	+2	+4	+6		
7. IMPACT ON EMPLOYEES	-6	-4	-2	+2	+4	+6		
8. RESOURCES	-6	-4	-2	+2	+4	+6		
							TOTAL WEIGHTED SCORE	

Rationale Sheet

Profile Criteria: ______________________________

NOTES

Appendix D

X. Cost Models

This appendix contains the each of the worksheets used in the Competitive Government Process: Contact OEG for a disk containing the Excel workbooks for each of these items.

Page

Outside

MINI-MODEL:

In-House

Outside

FULL COST MODEL

Schedule A - Total Cost Comparison

Enter Contract Term

Current Year 2000

AGENCY________ TARGET FNCT________ PREPARED BY:________

COST CATEGORY	HISTORICAL	CURRENT YEAR	A CONTRACT PERIOD 1	B CONTRACT PERIOD 2	C CONTRACT PERIOD 3	D CONTRACT PERIOD 4	E CONTRACT PERIOD 5	TOTAL CONTRACT A+B+C+D+E
	REVIEW PERIODS RELEVANT COSTS							
In-House Delivery								
A. Direct Costs	$0	$0	$0	$0	$0	$0	$0	$0
B. Indirect Costs	$0	$0	$0	$0	$0	$0	$0	$0
C. Adjustment Amount								$0
D.RELEVANT In-house A+B+C	$0	$0	$0	$0	$0	$0	$0	**$0**
Outside Delivery								
E. Contractor Costs			$0	$0	$0	$0	$0	$0
F. Contractor Support			$0	$0	$0	$0	$0	$0
G. Contract Monitoring			$0	$0	$0	$0	$0	$0
H. TOTAL Operating E+F+G			$0	$0	$0	$0	$0	**$0**
I. Revenue Generated - Asset Sales			$0	$0	$0	$0	$0	$0
J. Conversion Costs			$0	$0	$0	$0	$0	$0
K.TOTAL One-time J-I			$0	$0	$0	$0	$0	**$0**
L. TOTAL Outside K+H			$0	$0	$0	$0	$0	**$0**
Is Line H <= (Line D - 10%) IF YES CONTINUE								**YES**
Is Total Column of Line L < Total Column of Line D IF YES THEN AWARD TO OUTSIDE PROVIDER								**NO**

IN-HOUSE
Schedule B - Total Direct Costs

AGENCY 0 TARGET FNCT 0 PREPARED BY ________

	REVIEW PERIODS RELEVANT COSTS							
COST CATEGORY	HISTORICAL	CURRENT YEAR	CONTRACT PERIOD 1	CONTRACT PERIOD 2	CONTRACT PERIOD 3	CONTRACT PERIOD 4	CONTRACT PERIOD 5	CONTRACT TOTAL
A. Personnel	0	0	0	0	0	0	0	0
B. New Equipment		0	0	0	0	0	0	0
C. Depreciation - New Equipment		0	0	0	0	0	0	0
D. Depreciation - Current Equipment	0	0	0	0	0	0	0	0
E. Lease/Rental	0	0	0	0	0	0	0	0
F. Insurance	0	0	0	0	0	0	0	0
G. Materials & Supplies	0	0	0	0	0	0	0	0
H. Repairs & Maintenance	0	0	0	0	0	0	0	0
I. Telecommunications	0	0	0	0	0	0	0	0
J. Travel	0	0	0	0	0	0	0	0
K. Utilities	0	0	0	0	0	0	0	0
L. Other	0	0	0	0	0	0	0	0
TOTAL DIRECT COST[1]	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

1 = Entered on Schedule A Line A

IN-HOUSE

Personnel - Historical

AGENCY 0 TARGET 0 PREPARED BY: ________

Position Type P= Permanent L = Limited S = Seasonal/Temp U = Uncovered	A Position Title	B FTEs	C Total Annual Salary/Wage For all FTEs in that Position Title	D Total Fringe Benefits For all FTE's in that Position Title	E Personnel Costs C + D
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
				TOTAL[1]	0

1 = Entered on Schedule B Line A

Total Number of Permanent Employees = ________

Total Number of Seasonal/Temp Employees = ________

Total Number of Limited Employees = ________

Total Number of Uncovered Employees = ________

IN-HOUSE

Personnel - Current Period

AGENCY 0 TARGET 0 PREPARED BY ____________

Position Type P= Permanent L = Limited S = Seasonal/Temp U = Uncovered	A Position Title	B FTEs	C Total Annual Salary/Wage For all FTEs in that Position Title	D Total Fringe Benefits For all FTE's in that Position Title	E Personnel Costs C + D
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
				TOTAL[1]	0

1 = Entered on Schedule B Line A

Total Number of Permanent Employees = ______

Total Number of Seasonal/Temp Employees = ______

Total Number of Limited Employees = ______

Total Number of Uncovered Employees = ______

IN-HOUSE

Personnel - Contract Term

AGENCY 0 TARGET 0 PREPARED BY:__________

Position Type P= Permanent L = Limited S = Seasonal/Temp U = Uncovered	A Position Title	B FTEs	C Total Annual Salary/Wage For all FTEs in that Position Title	D Total Fringe Benefits For all FTEs in that Position Title	E Personnel Costs C + D
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
				TOTAL[1]	0

1 = Entered on Schedule B Line A

Total Number of Permanent Employees =________

Total Number of Seasonal/Temp Employees =________

Total Number of Limited Employees =________

Total Number of Uncovered Employees =________

IN-HOUSE

New Equipment - Current Period

ENTER CURRENT DEPRECIATION LEVEL ________

AGENCY 0 TARGET FNCT 0 PREPARED BY:________

A Description of Equipment Item	B Projected Cost	C Salvage Value	D Depreciation Base B-C	E Useful Life1	F Annual Depreciation Cost For Assets >= Depreciation Level						G Expensed[2]
					Curr Per	Cntr Per 1	Cntr Per 2	Cntr Per 3	Cntr Per 4	Cntr Per 5	
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
			0		0	0	0	0	0	0	0
TOTAL	0	0	0	TOTAL[3]	0	0	0	0	0	0	0

1 = Follow GAO Useful Life Guidelines

2 = Include only those assets < depreciation level in calculation of total expense. Entered on Schedule B Line B

3 = Total for assets which are depreciable (>= depreciation level) Entered on Schedule B Line C

IN-HOUSE

New Equipment - Contract Period

AGENCY 0 TARGET 0 PREPARED BY:___

A Description of Equipment Item	B Projected Cost	C Salvage Value	D Depreciation Base	E Useful Life1	F Annual Depreciation Cost For Assets >= Depreciation Level					G Expensed[2]
			B-C		Cntr Per 1	Cntr Per 2	Cntr Per 3	Cntr Per 4	Cntr Per 5	
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
			0		0	0	0	0	0	0
TOTAL	0	0	0	TOTAL[3]	0	0	0	0	0	0

1 = Follow GAO Useful Life Guidelines

2 = Include only those assets < depreciation level in calculation of total expense. Entered on Schedule B Line B

3 = Total for assets which are depreciable (>= depreciation level) Entered on Schedule B Line C

IN-HOUSE

Current Equipment Depreciation

For purposes of automatic calculation, this worksheet assumes that the contract period will begin the following year

AGENCY 0 TARGET 0 AGENCY 0 TARGET 0

PREPARED BY ______________ Curr Year 2000 PREPARED BY 0

	A	B	C	D	E	F	IF NOT FULLY DEPRECIATED - Annual Depreciation Cost							
4 Digit Year of Purchase	Description of Equipment Item	Purchase Price	Capital Improvements > $1,000	Salvage Value	Depreciation Base	Useful Life[1]	Historic	Current	Cntr Per 1	Cntr Per 2	Cntr Per 3	Cntr Per 4	Cntr Per 5	Total Contract Depreciation
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
					$0		0	0	0	0	0	0	0	0
						TOTAL[2]	0	0	0	0	0	0	0	0

1 = GAO Useful Life Guidelines in Handbook .

2 = Entered on Schedule B Line D

IN-HOUSE
Lease Rental Costs

AGENCY 0 TARGET 0 PREPARED BY: ______________

COST CATEGORY	REVIEW PERIODS													
	HISTORICAL		CURRENT YEAR		CONT PERIOD 1		CONT PERIOD 2		CONT PERIOD 3		CONT PERIOD 4		CONT PERIOD 5	
	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant
Land														
Buildings														
Data Processing Equipment														
Vehicles														
Other Machinery & Equipment														
Other														
TOTAL[1]	0	0	0	0	0	0	0	0	0	0	0	0	0	0

1 = Entered on Schedule B Line E

IN-HOUSE

Other Direct Costs

AGENCY 0 TARGET 0 PREPARED BY:____________

COST CATEGORY	REVIEW PERIODS													
	HISTORICAL		CURRENT YEAR		CONTRACT PERIOD 1		CONTRACT PERIOD 2		CONTRACT PERIOD 3		CONTRACT PERIOD 4		CONTRACT PERIOD 5	
	Total	Relevant[1]	Total	Relevant[1]	Total	Relevant[1]	Total	Relevant[1]	Total	Relevant[1]	Total	Relevant[1]	Total	Relevant[1]
Insurance														
Materials & Supplies														
Repairs & Maintenance														
Telecommunications														
Travel														
Utilities & Related Expend														
Other[2]														

1 = Relevant Costs are entered in Appropriate Period for Corresponding Category on Schedule B

2 = Prepare supporting Schedule if costs are included in "Other" Category

IN-HOUSE

Schedule C - Indirect Costs

AGENCY 0 TARGET 0 PREPARED BY:________

INDIRECT COST CATEGORY	REVIEW PERIODS													
	HISTORICAL		CURRENT YEAR		CONTRACT PERIOD 1		CONTRACT PERIOD 2		CONTRACT PERIOD 3		CONTRACT PERIOD 4		CONTRACT PERIOD 5	
	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant	Total	Relevant
TOTAL INDIRECT COST[1]	0	0	0	0	0	0	0	0	0	0	0	0	0	0

1 = Total Relevant Costs are entered in Appropriate Period on Schedule A Line B

OUTSIDE
Contractor Costs

AGENCY 0 TARGET 0

PREPARED BY ____________________

	REVIEW PERIODS RELEVANT COSTS					
	CONTRACT PERIOD 1	CONTRACT PERIOD 2	CONTRACT PERIOD 3	CONTRACT PERIOD 4	CONTRACT PERIOD 5	TOTAL CONTRACT
Contract Price						0
Revenue Decreases (Reduced User Fee Collection)						0
Lost Grants or Subsidies						0
Other Contractor Costs[4]						0
Subtotal[3]	0	0	0	0	0	0
Credit for New Revenues[2]	0	0	0	0	0	0
Total Contractor Cost[1]	0	0	0	0	0	0

1 = Entered on Schedule A Line E
2 = This amount is subtracted from the Contractor Costs
3 = Total of Contract Price, Revenue Decreases, Lost Grants and Other Contractor Costs
4 = Prepare a supporting schedule for these costs

OUTSIDE

New Revenue Generated

This schedule is for **revenues that will be received each year.**

AGENCY 0 TARGET 0

PREPARED BY__________

	CONTRACT PERIOD 1	CONTRACT PERIOD 2	CONTRACT PERIOD 3	CONTRACT PERIOD 4	CONTRACT PERIOD 5	TOTAL CONTRACT
Calculated Tax Amount	0	0	0	0	0	0
Additional Revenues[2]						
Fees submitted						0
						0
						0
						0
						0
Subtotal Additional Revenues	0	0	0	0	0	0
Total Other Revenues [1]	0	0	0	0	0	0

1= Entered on Contractor Costs

2 = Enter specific description and amounts on lines below

OUTSIDE
Contractor Support

AGENCY 0 TARGET 0
PREPARED BY ____________

Enter the **total cost** of Providing the support for **the life of the contract**

	Relevant Costs
Space Provided	
Equipment Provided	
Facility Maintenance Provided	
Other Provisions	
Total Contractor Support Cost	0
Amortize per contract period[1]	**#DIV/0!**

1 = Amortized Total Contractor Support costs will be entered on Schedule A Line F for the contract term.

OUTSIDE
Contract Monitoring

AGENCY 0 TARGET 0
PREPARED BY ____________

It is assumed that yearly monitoring costs will be constant. The **total** from this schedule is entered for **each contract period.**

Personnel and Support Staff Costs Classification Title	A Annual Salary	B ERE Costs	C Total A+B	Description of Duties
			0	
			0	
			0	
			0	
			0	
			0	
			0	
D. TOTAL PERSONNEL COST			**0**	Enter in Column F in table below

Other Cost Categories (Supplies, Travel, Data Processing, etc.)	Annual Cost Estimate	Justification
E. TOTAL OTHER COSTS	**0**	Enter in Column G in table below

F Total Personnel Costs	G Total Other Costs	F + G **Total Monitoring Costs**	
0	0	**0**	Entered on Schedule A Line G

OUTSIDE

Potential Revenue Generated - Asset Sales

AGENCY 0 TARGET 0 PREPARED BY ____________

Asset Type Check One				A	B	C	D	E	F	G	H
Eqpmt.	Bldng	Description of Item	Date Acquired	Useful Life	Original Cost	Salvage Value	Remaining Depreciation	Current Book Value	Estimated Market Value	Disposal Cost	Gain / (Loss)
							0	0			0
							0	0			0
							0	0			0
							0	0			0
							0	0			0
							0	0			0
							0	0			0
							0	0			0
				TOTAL [1]	0	0	0	0	0	0	0
										Amortized Amount[1]	#DIV/0!

Column Notes

A = The useful life per the State of Arizona Accounting manual for that class of assets

C = Amount asset is considered to be worth at end of useful life

D = The remaining depreciation is: Annual depreciation amount * Remaining Useful life.
The Annual depreciation amount is: (Original Cost -Salvage value) / Useful Life.
The remaining useful life is: Useful Life - (Current year - Acquisition Year). A Negative Answer should equate to 0.

E = Salvage value + Remaining Depreciation

F = Value to be obtained if asset is sold or transferred

G = Costs associated with the transfer or sale (e.g. advertising, transportation, etc.)

H = Est. Market Value - (Current Book Value + Disposal Cost).

1 = The total should be amortized (spread evenly) over the term of the contract. The amortized amount is entered on Schedule A Line J

OUTSIDE

Total Conversion Costs

AGENCY 0 TARGET 0

PREPARED BY ____________

CATEGORY	COST
Personnel Conversion Cost	
Annual Leave	0
FICA	0
Retirement	0
Unemployment Liabilities	0
Other	0
Additional Conversion Cost	0
TOTAL	0
Amortized Amount[1]	#DIV/0!

Total Conversion costs should be amortized over the contract term.

1=Amortized total entered on Schedule A Line F

OUTSIDE

Personnel Conversion Costs

AGENCY 0 TARGET 0 PREPARED BY________

PERSONNEL REQUIRING RESOURCE EXPENDITURE THROUGH BUY-OUT								
	A	B	C	D	E	F	G	H
Classification Title	Hourly Wage	Annual Leave Balance	Annual Leave Costs A * B	Medicare & FICA C * .0765	Retirement C * .0385	Unemployment Liability	Other	Expected Disposition
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
			0	0	0			
TOTAL [1]			0	0	0	0	0	

1=Total only those people who will require resource expenditure through buy-out. Entered on Conversion Cost Worksheet.

PERSONNEL WHO WILL NOT REQUIRE ADDITIONAL RESOURCE EXPENDITURE	
Classification Title	Expected Disposition

OUTSIDE
Additional Conversion Costs

AGENCY 0 TARGET 0
PREPARED BY ____________

Description	Relevant Cost
Material Transfer	
Early Lease Termination Penalties	
Data Conversion Costs	
Duplication of Effort	
TOTAL [1]	0

1 = Entered on Conversion Costs worksheet.

MINI MODEL

Schedule A - Total Cost Comparison

Agency ______
Target Function ______
Current State Fiscal Year ______

COST CATEGORY		TOTAL CONTRACT PERIOD I	TOTAL
In-House Delivery			
A. Direct Costs		$0	
B. Indirect Costs		$0	
C. Adjustment Amount			
D RELEVANT In-house A+B+C		**$0**	**$0**
Outside Delivery			
E. Contractor Costs			
F. Contractor Support		$0	
G. Contract Monitoring		$0	
H. TOTAL Operating E+F+G		**$0**	**$0**
I. Conversion Costs		$0	
J TOTAL One-time I		**$0**	
K. TOTAL Outside J+H		**$0**	**$0**
Is Line H <= (Line D - 10%) IF YES CONTINUE			**YES**
Is Total Column of Line K < Total Column of Line D IF YES THEN AWARD TO OUTSIDE PROVIDER			**NO**

IN-HOUSE
Schedule B - Total Direct Costs

Agency	0
Target Function	0
Current State Fiscal Year	0

	RELEVANT COSTS
COST CATEGORY	CURRENT YEAR
A. Personnel	0
B. New Equipment	0
C. Usage - New Equipment	0
D. Usage - Current Equipment	0
E. Lease/Rental	0
F. Insurance	0
G. Materials & Supplies	0
H. Repairs & Maintenance	0
I. Telecommunications	0
J. Travel	0
K. Utilities	0
L. Other	0
M. Other Direct Rate	0
TOTAL DIRECT COST[1]	0

1 = Entered on Schedule A Line A

IN-HOUSE

Personnel

Agency 0

Target Function 0

Current State Fiscal Year 0

Position Type P = Permanent L = Limited S = Seasonal/Temp U = Uncovered	A Position Title	B FTEs	C Total Annual Salary/Wage **For all FTEs in that Position Title**	D Total Fringe Benefits **For all FTE's in that Position Title**	E Personnel Costs C + D
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
					0
				TOTAL[1]	0

1 = Entered on Schedule B Line A

Total Number of Permanent Employees = ______

Total Number of Seasonal/Temp Employees = ______

Total Number of Limited Employees = ______

Total Number of Uncovered Employees = ______

IN-HOUSE

New Equipment - Current Period

Agency	**0**
Target Function	**0**
Current State Fiscal Year	**0**

Enter Current Depreciation Level	**5000**
Enter Depreciation Period	**5**

A Description of Equipment Item	B Projected Cost	C Fair Market Value at End of Contract Term	D Value Base	E Annual Usage Costs: For Assets >= Depreciation Level	F Expensed[2]
			B-C	Current Period	
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
TOTAL[1]	0	0	0	**0**	**0**

Entered on Schedule B Line B (Expensed) or
1= Line C (Usage)
2= Includes only those items costing < depreciation level. Total is entered on Schedule B Line B

IN-HOUSE

Current Equipment Usage

THIS SCHEDULE IS ONLY FOR CURRENT CAPITAL EQUIPMENT

Agency	**0**
Target Function	**0**
Current State Fiscal Year	**0**

Depreciation Level **5000**

A Description of Equipment Item	B Current Fair Market Value	C Fair Market Value at End of Contract Term	D Value Base	E Annual Usage Costs: For Assets >= Depreciation Level
			B-C	Current Period
			0	0
			0	0
			0	0
			0	0
			0	0
			0	0
			0	0
			0	0
			0	0
			0	0
TOTAL[1]	0	0	0	**0**

1= Entered on Schedule B Line B (Expensed) or Line C (Usage)

2= Includes only those items costing < depreciation level. Total is entered on Schedule B Line B

IN-HOUSE

Lease Rental Costs

Agency	0
Target Function	0
Current State Fiscal Year	0

COST CATEGORY	CURRENT YEAR	
	Total	Relevant
Land		
Buildings		
Data Processing Equipment		
Vehicles		
Other Machinery & Equipment		
Other		
TOTAL[1]	0	0

IN-HOUSE

Other Direct Costs

Agency	**0**
Target Function	**0**
Current State Fiscal Year	**0**

COST CATEGORY	CURRENT YEAR	
	Total	Relevant[1]
Insurance		
Materials & Supplies		
Repairs & Maintenance		
Telecommunications		
Travel		
Utilities & Related Expenditures		
Other[2]		
Other Direct Rate[3]		

1 = Relevant Costs are entered on Schedule B

2 = Prepare supporting Schedule if costs are included in "Other" Category

3 = A rate developed on the basis of a reasonable cost allocation methodology may be applied

OUTSIDE
Contract Monitoring

Agency	**0**
Target Function	**0**
Current State Fiscal Year	**0**

It is assumed that yearly monitoring costs will be constant. The **total** from this schedule is entered for **each contract period.**

Personnel and Support Staff Costs Classification Title	A Annual Salary	B ERE Costs	C Total A+B	Description of Duties
			0	
			0	
			0	
			0	
			0	
			0	
			0	
D. TOTAL PERSONNEL COSTS			**0**	Enter in Column F in table below

Other Cost Categories (Supplies, Travel, Data Processing, etc.)	Annual Cost Estimate	Justification
E. TOTAL OTHER COSTS	**0**	Enter in Column G in table below

F Total Personnel Costs	G Total Other Costs	F + G **Total Monitoring Costs**	
0	0	**0**	Entered on Schedule A Line G

OUTSIDE
Contractor Support

Agency	**0**
Target Function	**0**
Current State Fiscal Year	**0**

Enter the **total cost** of Providing the support **for a year**

	Relevant Costs
Space Provided	
Equipment Provided	
Facility Maintenance Provided	
Other Provisions	
Total Contractor Support Cost	0

OUTSIDE

Personnel Conversion Costs

Agency	**0**
Target Function	**0**
Current State Fiscal Year	**0**

PERSONNEL REQUIRING RESOURCE EXPENDITURE THROUGH BUY-OUT									
	A	B	C	D	E	F	G	H	I
Classification Title	Hourly Wage	Annual Leave Balance	Annual Leave Costs A * B	Medicare & FICA C * .0765	Retirement C * .0385	Unemployment Liability	Retiree Sick Leave	Other	Estimated Total Personnel Conversion Costs
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
			0	0	0				0
TOTAL [1]			0	0	0	0	0	0	0

1=Total only those people who will require resource expenditure through buy-out.

OUTSIDE

Additional Conversion Costs

Agency	0
Target Function	0
Current State Fiscal Year	0

Description	Relevant Cost
Material Transfer	
Early Lease Termination Penalties	
Data Conversion Costs	
Duplication of Effort	
TOTAL	0

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