



State of Connecticut
OFFICE OF POLICY AND MANAGEMENT

COST–BENEFIT ANALYSIS: PRIVATIZATION CONTRACTS
Policies and Procedures Manual

As required by Subsection (m) of C.G.S. Section 4e-16

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I. Introduction

A. Purpose and Scope

This document establishes the policies and procedures that State contracting agencies must follow when developing a cost-benefit analysis (CBA) as required by Subsection (a) of [C.G.S. Section 4e-16](#), as amended by [Public Act No. 14-188](#). According to this statute, a State contracting agency shall develop a CBA prior to entering into any privatization contract to deliver a State service that is not currently contracted out. This requirement does not apply to a privatization contract for service currently provided, in whole or in part, by a non-State entity.

This document does **not** involve the template that must be prescribed by the Secretary of Office of Policy and Management (OPM) in accordance with Subsection (p) of [C.G.S. Section 4e-16](#). According to Subsection (p), prior to entering into or renewing any privatization contract that is not subject to Subsection (a) of [C.G.S. 4e-16](#), a State agency shall evaluate whether such contract is the most cost-effective method of delivering the service. This evaluation shall be undertaken by the State agency in accordance with the template developed by the Secretary and shall be subject to verification by the Secretary. The [guidelines and templates](#) issued by the Secretary in regard Subsection (p) are on OPM's website.

As defined by [C.G.S. Section 4e-1](#), "State contracting agency" means any executive branch agency, board, commission, department, office, institution, council, or constituent unit of the State system of higher education. "State contracting agency" does not include the judicial branch, the legislative branch, the offices of the Secretary of the State, State Comptroller, Attorney General, State Treasurer with respect to their constitutional functions, or any State agency with respect to contracts specific to the constitutional and statutory functions of the Office of the State Treasurer.

As defined by [C.G.S. Section 4e-1](#), "privatization contract" means an agreement or series of agreements between a State contracting agency and a person or entity in which such person or entity agrees to provide services that are substantially similar to and in lieu of services provided, in whole or in part, by State employees. The term "privatization contract" does **not** include contracts with a nonprofit agency which were in effect as of January 1, 2009 and which through a renewal, modification, extension, or rebidding of contracts continue to be provided by a nonprofit agency.

B. Authority and OPM's Responsibilities

This manual is issued under the authority of Subsection (m) of [C.G.S. Section 4e-16](#) which states that: "The Office of Policy and Management, in consultation with the State Contracting Standards Board, shall: (1) Develop policies and procedures, including templates for use by state contracting agencies for the development of a cost-benefit analysis, as described in subsection (b) of this section, and (2) review with each state contracting agency the budgetary impact of any such privatization contract and the need to request budget adjustments in connection with any such privatization contract."

C. Procedures

In developing this manual of policies and procedures, OPM consulted related guidance and direction offered by various State and federal agencies, including, but not limited to, the Office of the State Comptroller (OSC) and the U.S. Office of Management and Budget (OMB).

This manual provides a uniform approach for identifying, quantifying and comparing the costs and benefits of a service provided “in-house” by State employees with the costs and benefits of the same service provided “outside” by a private contractor.

D. Amendments

The Secretary of OPM reserves the right to amend these policies and procedures, in whole or in part, to maintain consistency with the authorizing State law or when it is determined to be in the best interest of the State of Connecticut.

E. Required Agency Action

As required by Subsection (a) of [C.G.S. Section 4e-16](#), a State contracting agency shall develop a CBA in accordance with the policies and procedures established herein by the Office of Policy and Management (OPM).

Pursuant to Subsection (l) of [C.G.S. Section 4e-16](#), the State Contracting Standards Board (SCSB) may also review additional existing privatization contracts and shall review not less than one contracting area each year that is currently privatized. For each such privatization contract selected for review by the SCSB, the appropriate State contracting agency shall develop a CBA in accordance with the policies and procedures established herein by OPM.

F. Waivers

Pursuant to Subsection (o) of [C.G.S. 4e-16](#), a State contracting agency may enter into a privatization contract without development of a CBA if (1) the State contracting agency finds that a privatization contract is required (A) due to an imminent peril to the public health, safety or welfare, and (B) the agency states, in writing, its reasons for such finding; and (2) the Governor approves such finding, in writing.

G. Effective Date

These policies and procedures are effective June 1, 2015.

H. Inquiries

For further information concerning these policies and procedures, contact:

Office of Policy and Management, Office of Finance

450 Capitol Avenue

Hartford, CT 06106

Contacts: Valerie Clark (telephone: 860-418-6313) or Alison Fisher (telephone: (860) 418-6212)

Email addresses: valerie.clark@ct.gov Alison.fisher@ct.gov

II. Statutory Requirements for Cost Benefit Analysis for New Privatization Contracts

According to Subsection (a) of [C.G.S. Section 4e-16](#), if an agency wishes to pursue a privatization contract with a non-state entity for a State service that is not currently privatized,¹ the agency must develop a CBA that:

1. Documents the direct and indirect *costs, savings*, and qualitative and quantitative *benefits* that will result from the implementation of the privatization contract;
2. Specifies the *schedule* that, at a minimum, shall be adhered to in order to achieve any estimated savings;
3. Identifies any *cost factor* used; and
4. Supports any cost factor with all applicable *records and reports*.

The head of the State agency that is seeking the contract shall certify that, based on the data and information, all projected costs, savings, and benefits are valid and achievable.

As defined in Subsection (b) of [C.G.S 4e-16](#), “Costs” means all reasonable, relevant and verifiable expenses, including salary, materials, supplies, services, equipment, capital depreciation, rent, maintenance, repairs, utilities, insurance, travel, overhead, interim and final payments and the normal cost of fringe benefits, as calculated by the Comptroller. **Note:** The concept of “Normal Cost” related to retiree benefits will be described more fully in this manual.

As defined in Subsection (b) of [C.G.S 4e-16](#), “Savings” means the difference between the current annual direct and indirect costs of providing such service and the projected, annual direct and indirect costs of contracting to provide such services in any succeeding State fiscal year during the term of such proposed privatization contract.

The term “qualitative and quantitative benefits” is not defined in Title 4e of the C.G.S. For the immediate purpose here, OPM construes “benefits” to mean any desirable outcomes that are expected to result from a contract. Quantitative benefits are those that can be described and easily measured. Qualitative benefits are those that can be described, but are not easily measured.

As noted previously, the SCSB may also review additional existing privatization contracts and shall review not less than one contracting area that is currently privatized each year. For each such privatization contract selected for review by the SCSB, the appropriate State contracting agency shall develop a CBA.

¹ In terms of new privatization contracts, C.G.S. Title 4e does not make any distinction between a State service that is currently provided by State employees and a State service that is entirely new (not previously provided).

III. Procedures for a CBA for Proposed New Privatization Contract (Template 1)

For State agencies required to conduct a Cost-Benefit Analysis of a proposed new privatization contract, Template 1 (see Section V) should be utilized. Template 1, in accordance with state statutes, requires agencies to: 1) clearly define the scope of services proposed to be contracted out; 2) specify the schedule of activities for the proposal to contract out the services that is assumed in making the projections of costs, savings and benefits included in the Cost-Benefit Analysis; 3) project and compare the current and projected direct and indirect costs of both continuing to provide these services in-house with the projected cost of contracting out these services; and 4) identify the qualitative and quantitative benefits that may result from the proposal to contract out the services.

The information required in each of the sections of Template 1 are described below.

A. Written Statement of Scope of Services for Proposed Privatization Contract (Form A-100, Template 1)

After identifying the service proposed to be contracted out, an agency must develop a “work statement” describing what exactly the in-house service currently entails or, if a new service, what exactly the new service entails.

In drafting the work statement, an agency must analyze the current in-house delivery of the service, if the agency is providing such service, to determine what is needed to deliver the same quantity and quality of the service proposed to be contracted out. The quality standards for the service (e.g. timeliness of service delivery, performance measures, etc.) must be identified and defined. The work statement provides the basis of comparison for the cost of conducting the work in-house versus contracting it out so that each may later be evaluated using the same scope of work and standards of performance.

Should the final decision be to contract out the work, the work statement can form the basis for the scope of services in the solicitation for bids.

The work statement should express in clearly defined terms the service to be performed and the results to be achieved.

At a minimum, the work statement must include the following:

1. A description of the purpose and scope of service proposed for the contract;
2. A delineation of the specific tasks or activities to be contracted out, as well as those that will remain in-house;
3. An identification of the qualitative and quantitative outcomes (i.e., performance measures, deliverables, etc.) related to the service, and how these outcomes or benefits will be impacted by the implementation of the privatization contract;
4. A list of in-kind resources (e.g., space, personnel, equipment) that the agency will be providing the contractor, if any; and
5. Any other information that will clarify the scope and expectations of both the State and the contractor under the proposed contractual arrangement.

B. Projected Schedule for Contracting Out Services with a Non-State Entity (Form B-100, Template 1)

In order to make valid cost and other comparisons between in-house delivery of services and contracted services, it is important to know the implementation steps and the associated schedule for the proposal to contract out. If the projected costs and savings are contingent upon adhering to the schedule, this fact should be identified as part of completing this schedule.

C. Estimating Current and Projected Costs of In-House Services to be Provided through Contract

Once the work statement is completed, the agency must determine the total current and projected costs of the in-house delivery of the service, as detailed in the work statement. In calculating the total cost of performing the work in-house, the agency must include all direct costs plus a proportional share of agency and central agency (e.g. OPM, OSC, APA) overhead (indirect costs) to arrive at the full cost. These costs include:

1. **Direct Costs (Form C-101, Template 1).** Direct costs are items that only involve and are 100% attributable to the proposed privatized service. Direct costs include:
 - A. Payroll (not including fringe benefits). Payroll costs include annual salaries or wages based on hourly rates paid to personnel directly providing the services or doing the work identified in the work statement. Payroll costs should include salary and wages paid to full-time, part-time and temporary employees, and should also include additions to base salaries and wages, including, but not limited to, overtime, longevity payments, shift differential, hazardous duty pay and other payments reflected in the Core-CT HRMS module or other State financial management and human resources system. The cost estimate should include the position title of the personnel used to perform the function and the portion of the person's time attributable to the function.
 - B. Fringe Benefits. The Office of the State Comptroller annually issues a memorandum at the beginning of the fiscal year to the heads of all state agencies which outline the Fringe Benefit Cost Recovery Rates for that fiscal year. The memorandum can be found at the [Office of the State Comptroller](#). These rates are generally in the form of a percentage of payroll. When doing a CBA, these percentages should be applied to the payroll amounts determined in Section C.1.A. above (including overtime and other payroll costs as described in C1.A.). **When using the provided templates to complete a CBA, these percentages will be pre-populated and calculated for your convenience and updated periodically in accordance with guidance from the Office of the State Comptroller.**

The fringe benefit categories included in the Comptroller's memorandum include:

1. Unemployment Compensation
2. Retirement SERS Regular Employees*. This is the employer's (i.e. State's) Normal Cost of pension for eligible non-hazardous duty employees (i.e. employees with work schedules of 17.5 or more hours per week)
3. Retiree Health Regular Employees*: This is the employer's (i.e. State's) Normal Cost of retiree health for eligible non-hazardous duty employees (i.e. employees with work schedules of 17.5 or more hours per week)
4. Retirement SERS Hazardous Duty Employees*. This is the employer's (i.e. State's) Normal Cost of pension for eligible hazardous duty employees (i.e. employees with work schedules of 17.5 or more hours per week)

5. Retiree Health Hazardous Duty Employees*: This is the employer's (i.e. State's) Normal Cost of retiree health for eligible hazardous duty employees (i.e. employees with work schedules of 17.5 or more hours per week)

***NOTE: Guidance on rates and calculations for the normal cost of the State Employee Retirement System (Pension and Retiree Health) (SERS) for both regular and hazardous duty SERS employees is obtained from the Comptroller's Office. Please note that the unfunded liability related to the SERS retirement plan has been removed from the rate. The current regular SERS employee and the hazardous duty SERS employee has been prefilled in the templates.**

6. Social Security. Federal percentage of salaries/wages up to the federal wage maximum
7. Medicare. Federal rate
8. Employer Portion. Life Insurance: State Share Premium**
9. Employer Portion. Medical and Dental: State Share Premiums for Medical, Dental and Prescription Coverage.**
10. Worker's Compensation. The cost of Workers' Compensation at your agency may be centrally managed by DAS. If it is, please refer to the Office of the State Comptroller's memorandum pertaining to this topic (<http://www.osc.ct.gov/2013memos/numbered/201317.htm>) and use the "general agency" rate as listed. If your agency budgets its own Workers' Compensation, please locate the rate assigned to your agency as listed in the aforementioned memo. **The pre-populated percentage in the template is the statewide average used for agencies not having their own percentage. The current percentages for those agencies having their own rates are listed in the template.**

****Note: Since November 2003, with the implementation of the Core-CT HRMS module, the state share of certain fringe benefits has been charged to agencies on an actual cost basis. This includes group life insurance and medical insurance, which are calculated based on the actual cost of the state's share of insurance premiums, including for each individual employee. If you are making projections for new or vacant positions, please estimate based on actual costs associated with those for your agency as a whole. When there are vacant positions, some assumptions as to salary levels, number of dependents, etc., may need to be made. The provided templates are pre-populated using a statewide average of the State's percentage share (i.e. percentage of salary) of employee medical and dental benefit costs.**

11. Other (please identify)

Definition of Normal Cost for Pension and OPEB: The Normal Cost, also known as the annual benefit cost, generally represents the portion of the cost of projected benefits allocated to the current plan year. The Normal Cost does not include the portion of the Actuarially Required Contribution (ARC) that addresses a pension or OPEB plans' unfunded liability. The unfunded liability portion of the ARC relates to funding issues associated with prior years and does not relate to the cost of benefits being earned in the current year. Section 4e-16 requires the use of the Normal Cost for retirement benefits when doing a CBA.

- C. Other Expenses. Definitions for the “Other Expense” line-items in Template 1 are included below (**Please Note: Other Expense costs, like other direct costs, should be for those costs directly associated with the delivery of the service. Shared agency-wide costs should generally be included in your indirect rate**)

Line-Item Number

1. Contracted Services. Outside person or entity providing work or services under a contract or agreement.
2. Materials, Supplies and Licenses. Commodities, goods or other consumables obtained from outside suppliers, along with software and other licenses.
3. Rent. The cost of renting/ leasing of property, equipment or facilities directly used in performing the service. DAS would be able to provide information for properties or facilities within Hartford or other properties for which they manage and pay.
4. Equipment (less than \$5,000). Equipment is defined as nonexpendable, tangible, personal (non-real estate) property with a normal useful life of at least one year. **NOTE: Expenditures for equipment with an acquisition cost of \$5,000 or greater are considered capital expenditures and should be amortized using the Depreciation line-item.**
5. Depreciation. Under the concept of the conversion of expenditures to expenses, capital equipment or improvement costs (defined as equipment or capital improvements costing over \$5,000) must be allocated over the period of benefit to reflect consumption of resources. This amount should be included in the Depreciation line-item. Depreciation should be calculated by dividing the depreciable basis or current cost by the estimated life or remaining life of the asset. Depreciable basis is defined as acquisition cost plus transportation and installation costs. Real property (buildings, land, etc.) often have an estimated life of up to 20 years, while equipment may be in the 5 to 7 year range.
6. Maintenance and Repair. Necessary preservation, care or upkeep of buildings or equipment that neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition.
7. Utilities. Fuel, electricity, water, and sewer costs directly incurred in performing the function.
8. Insurance. Protection against potential financial loss that the organization is required to carry specifically for this service; or any other such protection that an organization maintains in connection with the general conduct of this service. This definition of insurance does not include fringe benefits for employees.
9. Training. Cost of training for personnel along with any registration fees, transportation, meals and other costs associated with training.
10. Travel. Travel and transportation costs include vehicle costs, including leases and rentals, gasoline and vehicle repairs, mileage costs, air or train transportation, and, lodging, meal and other expenses associated with non-training related travel.
11. Communication. Communication is defined as wire line and wireless telecommunications services, e-mail and internet services, postage, cable, printing and other communication costs.
12. Other. Other expenses, not otherwise listed, should be specified.

2. **Indirect Costs** (*Forms C-102 and C-103, Template 1*). Also known as overhead costs, these items include those that benefit the service detailed in the work statement as well as at least one other service. There are generally two types of indirect costs: agency overhead and central services overhead.

- A. Agency Indirect Costs. Agency indirect costs, or overhead, include agency leadership, business office, personnel and legal staff as well as items such as building/utility costs which are not directly attributable to the proposed privatized service. To recover indirect costs associated with a federal grant, a number of state agencies have developed an indirect cost rate. This rate has to be approved by the federal government in order for it to be used to recover indirect costs through a federal grant. The indirect cost rate is a ratio (expressed as a percentage) that is multiplied by the direct salary base of the federal grant, or salaries plus fringe benefits and other expenses in some agencies, depending on the indirect cost methodology used.

If an agency has an indirect cost rate, this should be used as a method of determining the agency indirect costs related to the direct costs of the service. **For agencies not having an indirect cost rate, a form (Form C-103) to develop the rate has been included in Template 1. If you have any questions, please contact the OPM Office of Finance for assistance.**

- B. Central Services Overhead. These costs are those incurred for statewide support functions and activities, such as the Office of the State Comptroller, Auditors of Public Accounts, and the Office of Policy and Management that benefit all departments. The Office of the State Comptroller, as required by the federal government, develops the Statewide Cost Allocation Plan (SWCAP), which allocates the cost of these central services to twenty or so state agencies. (<http://www.osc.ct.gov/2013memos/numbered/201319.htm>)

The allocation of these costs to twenty state agencies account for approximately 93 percent of the total central agency costs, with the remaining amount being for services provided to all other state agencies. State agencies having an agency overhead indirect cost can add the SWCAP amount to their indirect costs to arrive at an amount that includes the central agency indirect costs. Once again, in cases where an agency does not have an indirect cost rate, including SWCAP, a projected rate using Form C-103 must be developed for the purpose of this cost-benefit analysis.

3. **Cost of In-House Service Delivery, With and Without Indirect Costs.** Template 1 will calculate the cost of in-house service delivery both with and without the inclusion of indirect costs.

D. Projected Costs of Contracting Out Services

Determining the estimated and projected cost of contracting out a service now provided in-house will involve developing costs and estimates for the: 1) cost of the contract; 2) the cost of in-house contract management; and 3) State agency transition costs and revenue impacts related to contracting out.

1. **Estimated and Projected Cost of Contract.** (*Forms D-101 or D-102, Template 1*) According to C.G.S 4e-16, a state contracting agency may only solicit bids for a privatization contract requiring a CBA after receiving approval from the State Contracting Standards Board or, in some instances, from the General Assembly. Therefore, agencies must develop a projected cost for contracted services. To accomplish this, agencies should develop a projected line-item budget (using Form D-101) including the following elements:

2. Projected personal service costs based on projected staffing levels and market rates* for salaries and benefits
3. Estimated costs for materials and supplies, equipment, rent and other expense categories
4. Profits and overhead

*Hourly rates for contractors may incorporate costs such as vacation and sick time, fringe benefits, overhead, and other costs which may make comparisons to hourly salary rates for State employees inaccurate. Agencies should ensure these differences are adequately reflected in the analysis.

Agencies should utilize the following types of information or approaches in developing these projections:

1. Knowledge of staffing, materials, equipment, etc. gained through the in-house provision of services;
2. Data about private sector salary and benefit levels;
3. The current price of recent bids for similar services;
4. The cost of similar existing contracted services;
5. Examples of contracted services and their costs in similar states;
6. Issue a Request for Information (RFI) to test the market's approach regarding the most cost-effective methods of delivering these services. The entities responding to the RFI would not be precluded from participating as a bidder should an RFP be issued for the service; and
7. Other means of determining the market rates for these services.

The above information should be used to either help develop or corroborate the elements of the projected contract cost line-item budget.

Many aspects of the payroll, fringe benefit and other expense line-items descriptions under Section III.C. of this manual may apply to this section as well.

NOTE: Form D-102 provides an ALTERNATIVE to Form D-101 for State agencies to develop the cost of a contract. Form D-102 involves identifying the number of units of services received (e.g. hours of service, number of FTEs, quantity of products received) and the cost for each of these units of service.

Whether Form D-101 or Form D-102 is used to develop the cost of the contract, any state direct or indirect costs that are *included* in Forms C-101 or C-102 related to the in-house delivery of services *that will continue to be* the responsibility of the State should be included in Form D-101 or Form D102 as indicated by the detailed template instructions.

2. Cost of In-House Contract Management. (Form D-103, Template 1) In addition to estimating the potential cost of the contract itself, the agency must also consider the cost of administering the contract. These costs include staffing and other costs associated with contract preparation and management, monitoring contractor performance, negotiating change orders, contractor evaluation, making payments and other related fiscal work. Below is a table that offers a **potential basis** for determining the number of contract administration staff needed to manage the contract.

<u>In-house Staffing Requirements</u>	<u>Contract Administration Staff</u>
Less than 20 FTEs	1
21-42	2
43-65	3
66-91	4
92-119	5
120-150	6
More than 150	Use 2-4% of In-house requirements

Source: Office of the State Auditor, Commonwealth of Massachusetts, March 1994

Developing cost estimates of in-house contract management should be done in a similar manner to develop the costs of in-house delivery of service (i.e. estimating payroll, fringe benefits, other expenses, indirect costs and unavoidable costs) as outlined in Section III.C. of this manual.

3. State Transition Costs and Revenue Impacts Related to Contracting Out. (Form D-104, Template 1) Transition costs are those costs to the State, both one time and recurring over a few years, that are associated with moving from an in-house delivery of a service to privatization. Examples of such costs include:

- 1) Personnel-related costs such as unemployment compensation, payout of accrued leave time, and any outplacement services provided for State employees previously providing the service.
- 2) Costs associated with the termination or continuation of leases and selling of assets no longer required if the service is privatized. This cost should be reduced by the anticipated value of assets to be sold. The potential use of any state owned/leased materials, equipment and facilities by the contractor should be included where appropriate.

Please note: Contractor start-up costs should be included as a “Cost of the Contract” in Form D-101 or Form D-102.

Direct impacts on State revenue collections as a result of contracting out should also be reflected in Form D-104.

4. Total Cost of Contracting Out Services, With and Without Indirect Costs. Template 1 will calculate the total costs of contracting out services, both with and without the inclusion of indirect costs.

E. Projected Savings/(Costs) Contracting Out Service Currently Provided by State Employees

For the first five years of the proposed contracting out of a service now provided in-house, Part E of Template 1 will calculate the following:

1) (Direct + Indirect Costs of In-House Delivery) - (Costs of Contracting Out Service, including indirect costs) = Fully Allocated Savings/(Costs) of Contracting Out Services

and

2) (Direct Cost In-house Delivery Only) – (Costs of Contracting Out Service, excluding indirect costs) = Savings/(Costs) of Contracting Out Services, without inclusion of indirect costs

F. Quantitative and Qualitative Benefits and Risks of Privatization (*Form F-100, Template 1*)

This section involves describing the quantitative and qualitative benefits and risks that are not necessarily captured or reflected elsewhere in the CBA, but are important factors to consider. As indicated previously, OPM is defining “benefits” to mean any desirable outcomes that are expected to result from a contract while “risks” involve potential undesirable outcomes. Quantitative benefits and risks are those that can be described and easily measured. Qualitative benefits and risks are those that can be described, but are not easily measured.

IV. Procedures for Cost-Benefit Analysis for Proposed In-House Delivery of Services Currently Provided by Contract with Non-State Entity (Template 2)

For State agencies required to conduct a Cost-Benefit Analysis for bringing a currently contracted service in-house, Template 2 (see Section V) should be utilized. Template 2, in accordance with state statutes, requires agencies to: 1) clearly define the scope of services proposed to be brought in-house; 2) specify the schedule of activities for the proposal to bring the service in-house that is assumed in making the projections of costs, savings and benefits included in the Cost-Benefit Analysis; 3) project and compare the current and projected direct and indirect costs of both continuing to provide these services through a contract with the projected cost of bringing the service in-house; and 4) identify the qualitative and quantitative benefits that may result from the proposal to bring a contracted service in-house.

Template 2 involves the following components:

A. Written Statement of Scope of Services to be Brought In-House (*Form A-200, Template 2*)

After identifying the services to be brought in-house, an agency must develop a “work statement” to define and describe the service that is currently privatized.

In drafting the work statement, an agency must analyze the contracted scope of services for the current privatized delivery of the service to determine what in-house resources are needed to deliver the same quantity and quality of the service. The quality standards for the service (e.g. timeliness of service delivery, performance measures, etc.) must be identified and defined. The work statement provides the basis of comparison for the cost of conducting the work in-house

versus privatization so that each can be evaluated using the same scope of work and standards of performance.

If the final decision is to provide the service in-house, the work statement can form the basis for the service or program creation and the request for additional resources and positions.

The work statement should express, in clearly defined terms, the service to be performed and the results to be achieved.

At a minimum, the work statement must include the following:

1. A description of the purpose and scope of service proposed for in-house delivery;
2. A delineation of the specific tasks or activities to be brought in-house as well as any aspect that may remain privatized;
3. An identification of the qualitative and quantitative outcomes (i.e. performance measures, deliverables, etc.) related to the service, and how these outcomes or benefits will be impacted by the implementation of bringing the service in-house; and
4. Any other information needed to clarify the scope and expectations for the in-house delivery of services compared to contracting out these services.

B. Projected Schedule for Bringing Service In-House (*Form B-200, Template 2*)

In order to make valid cost (and other) comparisons between the in-house delivery of services and contracted services, it is important to know the implementation steps and associated schedule as part of the proposal to bring the service in-house. If the projected costs and savings are contingent upon adhering to the schedule, this fact should be identified as part of completing this schedule.

C. Estimating Current and Projected Costs of Contracted Service

Once the work statement and schedule are completed, the agency must determine the total current and projected costs of the contracted service, as detailed in the work statement. These costs include: 1) cost of the contract and 2) the cost of in-house contract management.

1. Cost of Contract. (*Form C-201, Template 2*) Since the services are currently contracted out, prior actual and current estimated costs of these services should be known. In order to provide a better understanding of these costs and to assist in making projections for the in-house delivery of services, Template 2 requires State agencies to identify the number of units of services received (e.g. hours of service, number of FTEs, quantity of products received) and the cost for each of these units of service in the prior year, current year and projected for the next five years. These projections should include any projected inflationary increases.

Please note: Hourly rates for contractors may often incorporate costs such as vacation and sick time, fringe benefits, overhead, and other costs.

2. Cost of In-House Contract Management. (*Forms C-202 and C-203, Template 2*) In addition to estimating the cost of the contract itself, the agency also must include the cost of administering the contract. These costs include the current staffing and other costs associated with contract preparation and management, monitoring contractor performance, negotiating change orders,

contractor evaluation, and making payments and doing other fiscal work. **The agency and state-wide indirect costs related to in-house contract management should also be provided and estimated in Form C-202. Please see Section III.C.2. for additional information regarding indirect costs.**

NOTE: If your agency does not have an indirect rate, Form C-203 can be used to develop the rate.

3. Total Cost of Contracting Out, With and Without Indirect Costs. Template 2 will calculate the total cost of contracting out, both with and without the inclusion of indirect costs.

D. Estimated & Projected Costs of In-House Delivery of Services Currently Provided by Contract (Forms D-201, D-202 and D-203, Template 2)

In calculating and projecting the cost of performing the work in-house, the agency must include all direct costs plus a proportional share of agency and central agency (e.g. OPM, OSC, APA) overhead (indirect costs) to arrive at the fully allocated cost. In addition, one-time transition costs and revenue impacts for bringing a service in-house will also need to be determined.

1. Direct Costs. (Form D-201, Template 2) Direct costs are items that only benefit and are 100% attributable to the proposed in-house delivery of the service. Since the services are currently contracted out, State agencies will need to estimate the amount of in-house staffing and resources that will be required to provide the scope of service outlined in the work statement. One source of information for these estimates includes the number of hours, FTEs, or resources that the current contractor utilizes to provide these services. Other information includes reviewing the staffing and resources used by State agencies or other organizations to provide similar services.

Please see Section III.C.1. for additional information regarding estimating and projecting direct costs for in-house delivery of services.

2. Indirect Costs. (Form D-202, Template 2) Also known as overhead costs, these items include those that benefit the service detailed in the work statement for in-house delivery of services as well as at least one other service. There are generally two types of indirect costs: agency overhead and central services overhead. **Please see Section III.C.2. page 12 for additional information and discussion regarding estimating and projecting indirect costs for in-house delivery of services. NOTE: If your agency does not have an indirect rate, the rate developed in Form C-203 should be used.**
3. Transition Costs and Revenue Impacts of Bringing Services In-House. (Form D-203, Template 2) Transition costs are those contract-related costs, both one time and recurring, that are associated with moving from contracting the service to bringing it in-house. Examples of such costs include costs related to termination provisions in the contract or the need to have an overlap of contractor and in-house costs during the transition period. **Please note: One-time start-up costs for the State to deliver the service should be included in Form D-201.** Direct impacts on State revenue collections as a result bring a service in-house should also be reflected in Form D-203.
4. Total Cost of In-House Service Delivery, With and Without Indirect Costs. Template 2 will calculate the cost of in-house service delivery, both with and without the inclusion of indirect costs.

E. Projected Savings/(Costs) of Bringing Contracted Services In-House

For the first five years of the potential in-house delivery of service, Part E of Template 2 will calculate the following:

- 1) (Costs of Contracting Out Service, including indirect Costs) - (Direct + Indirect Costs of In-House Delivery) = Fully Allocated Savings/(Costs) of Bringing Service In-House
- 2) (Costs of Contracting Out Service, excluding indirect costs) - (Cost of In-House Service Delivery, excluding indirect costs) = Savings/(Cost) of Bringing Service In-House, excluding indirect costs

F. Quantitative and Qualitative Benefits and Risks of Bringing Contracted Services In-House (*Form F-200, Template 2*)

This section involves describing the quantitative and qualitative benefits and risks that are not necessarily captured or reflected elsewhere in the CBA, but which are important factors to consider. As indicated previously, OPM is defining “benefits” to mean any desirable outcomes that are expected to result from in-house service delivery while “risks” involve potential undesirable outcomes. Quantitative benefits and risks are those that can be described and easily measured. Qualitative benefits and risks are those that can be described, but are not easily measured.

V. Templates

- A. [Template 1](#): Cost Benefit Analysis for a Proposal to Contract Out New Service or Service Currently Provided by State Employees
- B. [Template 2](#): Cost Benefit Analysis for In-House Delivery of Service Currently Contracted Out

Appendix A.

Statutory Authority:*

Connecticut General Statutes. Chapter 62. State Contracting Standards Board (as amended by Public Act No. 14-188)

***Note: This Section became effective January 1, 2010. The changes made by Public Act No. 14-188, and that are effective October 1, 2014, are highlighted in the following.**

Section 4e-16 of the general statutes

(a) Prior to entering into any privatization contract for the privatization of a state service that is not currently privatized, the state contracting agency shall develop a cost-benefit analysis in accordance with the provisions of subsection (b) of this section. Such requirement shall not apply to a privatization contract for a service currently provided, in whole or in part, by a non-state entity. Any affected party may petition the State Contracting Standards Board for review of such privatization contract, in accordance with the provisions of subsections (f) to (h), inclusive, of this section.

(b) The cost-benefit analysis conducted by a state contracting agency prior to entering into a privatization contract shall document the direct and indirect costs, savings, and qualitative and quantitative benefits that will result from the implementation of such privatization contract. Such cost-benefit analysis shall specify the schedule that, at a minimum, shall be adhered to in order to achieve any estimated savings. Any cost factor shall be clearly identified in such cost-benefit analysis and supported by all applicable records and reports. The department head of such state contracting agency shall certify that, based on the data and information, all projected costs, savings and benefits are valid and achievable. As used in this subsection, (1) "costs" means all reasonable, relevant and verifiable expenses, including salary, materials, supplies, services, equipment, capital depreciation, rent, maintenance, repairs, utilities, insurance, travel, overhead, interim and final payments and the normal cost of fringe benefits, as calculated by the Comptroller; [As used in this subsection,] (2) "normal cost of fringe benefits" means the amount of contributions required to fund the fringe benefits allocated to the current year of service; and (3) "savings" means the difference between the current annual direct and indirect costs of providing such service and the projected, annual direct and indirect costs of contracting to provide such services in any succeeding state fiscal year during the term of such proposed privatization contract.

(c) (1) If such cost-benefit analysis identifies a cost savings to the state of ten per cent or more, and such privatization contract will not diminish the quality of such service, the state contracting agency shall develop a business case, in accordance with the provisions of subsection (d) of this section, in order to evaluate the feasibility of entering into any such contract and to identify the potential results, effectiveness and efficiency of such contract.

(2) If such cost-benefit analysis identifies a cost savings of less than ten per cent to the state and such privatization contract will not diminish the quality of such service, the state contracting agency may develop a business case, in accordance with the provisions of subsection (d) of this section, in order to evaluate the feasibility of entering into any such contract and to identify the potential results, effectiveness and efficiency of such contract, provided there is a significant public policy reason to enter into such privatization contract. Any such business case shall be approved in accordance with the provisions of subdivision (4) of subsection (h) of this section.

(3) If any such proposed privatization contract would result in the layoff, transfer or reassignment of one hundred or more state agency employees, after consulting with the potentially affected bargaining units, if any, the state contracting agency shall notify the state employees of such bargaining unit, after such [cost benefit] cost-benefit analysis is completed. Such state contracting agency shall provide an opportunity for said employees to reduce the costs of conducting the operations to be privatized and provide reasonable resources for the purpose of encouraging and assisting such state employees to organize and submit a bid to provide the services that are the subject of the potential privatization contract. The state contracting agency shall retain sole discretion in determining whether to proceed with the privatization contract, provided the business case for such contract is approved by the board.

(d) Any business case developed by a state contracting agency for the purpose of complying with subsection (c) of this section shall include: (1) The [cost benefit] cost-benefit analysis as described in subsection (b) of this section, (2) a detailed description of the service or activity that is the subject of such business case, (3) a description and analysis of the state contracting agency's current performance of such service or activity, (4) the goals to be achieved through the proposed privatization contract and the rationale for such goals, (5) a description of available options for achieving such goals, (6) an analysis of the advantages and disadvantages of each option, including, at a minimum, potential performance improvements and risks attendant to termination of the contract or rescission of such contract, (7) a description of the current market for the services or activities that are the subject of such business case, (8) an analysis of the quality of services as gauged by standardized measures and key performance requirements including compensation, turnover, and staffing ratios, (9) a description of the specific results-based performance standards that shall, at a minimum be met, to ensure adequate performance by any party performing such service or activity, (10) the projected time frame for key events from the beginning of the procurement process through the expiration of a contract, if applicable, (11) a specific and feasible contingency plan that addresses contractor nonperformance and a description of the tasks involved in and costs required for implementation of such plan, and (12) a transition plan, if appropriate, for addressing changes in the number of agency personnel, affected business processes, employee transition issues, and communications with affected stakeholders, such as agency clients and members of the public, if applicable. Such transition plan shall contain a reemployment and retraining assistance plan for employees who are not retained by the state or employed by the contractor. If the primary purpose of the proposed privatization contract is to provide a core governmental function, such business case shall also include information sufficient to rebut the presumption that such core governmental function should not be privatized. Such presumption shall not be construed to prohibit a state contracting agency from contracting for specialized technical expertise not available within such agency, provided such agency shall retain responsibility for such core governmental function. For the purposes of this section, "core governmental function" means a function for which the primary purpose is (A) the inspection for adherence to health and safety standards because public health or safety may be jeopardized if such inspection is not done or is not done in a timely or proper manner, (B) the establishment of statutory, regulatory or contractual standards to which a regulated person, entity or state contractor shall be held, (C) the enforcement of statutory, regulatory or contractual requirements governing public health or safety, or (D) criminal or civil law enforcement. If any part of such business case is based upon evidence that the state contracting agency is not sufficiently staffed to provide the core governmental function required by the privatization contract, the state contracting agency shall also include within such business case a plan for remediation of the understaffing to allow such services to be provided directly by the state contracting agency in the future.

(e) Upon the completion of such business case, the state contracting agency shall submit the business case to the State Contracting Standards Board. For any privatization contract with a projected cost that

exceeds one hundred fifty million dollars annually or six hundred million dollars over the life of such contract, the state contracting agency shall also submit such business case to the Governor, the president pro tempore of the Senate, the speaker of the House of Representatives, and any collective bargaining unit affected by the proposed privatization contract.

(f) (1) there shall be a privatization contract committee of the State Contracting Standards Board that shall review, evaluate, issue advisory reports and make recommendations on business cases submitted to the board by any state contracting agency. Such privatization contract committee shall consist of five members of the State Contracting Standards Board. Such members shall be appointed by the chairperson of the board and consist of both gubernatorial and legislative appointments, have not more than three members from any one political party, and at least one member of such committee shall have expertise in the area that is the subject of such proposed contract. The chairperson of the board, or the chairperson's designee shall serve as the chair of the privatization contract committee.

(2) Upon receipt of any such business case from a state contracting agency, the State Contracting Standards Board shall immediately refer such business case to such privatization contract committee. The privatization contract committee shall employ a standard process for reviewing, evaluating and approving any such business cases. Such process shall include due consideration of: (A) The cost-benefit analysis developed by the state contracting agency, (B) the business case developed by the state contracting agency, including any facts, documents or other materials that are relevant to such business case, (C) any adverse effect that such privatization contract may have on minority, small and women-owned businesses that do, or are attempting to do business with the state, and (D) the value of having services performed in the state and within the United States.

(3) The privatization committee shall evaluate the business case and submit the committee's evaluation to the State Contracting Standards Board for review and approval. During the review or consideration of any such business case, no member of the board shall engage in any ex-parte communication with any lobbyist, contractor or union representative. Unless otherwise provided in this section, a majority vote of the board shall be required to approve any such business case.

(4) The business case for a privatization contract to provide a core governmental function may be approved by a two-thirds vote of the board, provided the state contracting agency has provided sufficient evidence to rebut the presumption contained in subsection (d) of this section and there is a significant policy reason to approve such business case. In no such case shall the insufficient staffing of a state contracting agency constitute a significant policy reason to approve a business case for a privatization contract to provide a core governmental function.

(g) Each state contracting agency that submits a business case to the board for review shall submit to the board all information, documents or other material required by the privatization contract committee to complete its review and evaluation of such business case.

(h) (1) Not later than sixty days after receipt of any business case, the State Contracting Standards Board shall transmit a report detailing its review, evaluation and disposition regarding such business case to the state contracting agency that submitted such business case and, in the case of a privatization contract with a projected cost of one hundred fifty million dollars or more annually, or six hundred million dollars or more over the life of the contract, concomitantly transmit such report to the Governor, the president pro tempore of the Senate, the speaker of the House of Representatives and any collective bargaining unit affected by the proposed privatization contract. Such sixty-day period may be extended

for an additional thirty days upon a majority vote of the board or the privatization contract committee and for good cause shown.

(2) The board's report shall include the business case prepared by the state contracting agency, the evaluation of the business case prepared by the privatization contract committee, the reasons for approval or disapproval, any recommendations of the board and sufficient information to assist the state contracting agency in determining if additional steps are necessary to move forward with a privatization contract.

(3) If the State Contracting Standards Board does not act on a business case submitted by a state contracting agency within sixty days of receipt of such business case, such business case shall be deemed approved, except that no business case may be approved for failure of the board to meet.

(4) In the case of a business case developed pursuant to subdivision (2) of subsection (c) of this section, a two-thirds vote of the board shall be required for approval of such privatization contract.

(5) Any state contracting agency may request an expedited review of a business case submitted to the board if there is a compelling public interest for such expedited review. If the board approves the agency's request for such an expedited review, such review shall be completed no later than thirty days after receipt of such request. If the board fails to complete an expedited review within thirty days of receipt of a request that was approved by the board, such business case shall be deemed to be approved.

(i) A state contracting agency may publish notice soliciting bids for a privatization contract only after the board approves such business case, provided any privatization contract that is estimated to cost in excess of one hundred fifty million dollars annually or six hundred million dollars or more over the life of the contract shall also be approved by the General Assembly prior to the state contracting agency soliciting bids for such contract. The General Assembly may approve any such contract as a whole by a majority vote of each house or may reject such agreement as a whole by a majority vote of either house. If the General Assembly is in session, it shall vote to approve or reject such contract not later than thirty days after such state contracting agency files such contract with the General Assembly. If the General Assembly is not in session when such contract is filed, it shall be submitted to the General Assembly not later than ten days after the first day of the next regular session or special session called for such purpose. The contract shall be deemed approved if the General Assembly fails to vote to approve or reject such contract within thirty days after such filing. Such thirty-day period shall not begin or expire unless the General Assembly is in regular session. For the purpose of this subsection, any contract filed with the clerks within thirty days before the commencement of a regular session of the General Assembly shall be deemed to be filed on the first day of such session.

(j) Each state contracting agency shall submit, in writing, to the State Contracting Standards Board, any proposed amendment to a board-approved business case in order that the board may review and approve of such proposed amendment. The board may approve or disapprove of any such proposed amendment not later than thirty days after receipt of such proposed amendment by the same vote that was required for approval of the original business case. If the board fails to complete its review within thirty days of receipt of such proposed amendment, such amendment shall be deemed approved.

(k) Not later than thirty days after a decision of the board to approve a business case, any collective bargaining agent of any employee adversely affected by such proposed privatization contract may file a motion for an order to show cause in the superior court for the judicial district of Hartford on the grounds that such contract fails to comply with the substantive or procedural requirements of this section. A ruling on any such motion may: (1) Deny the motion; (2) grant the motion if the court finds that the proposed contract would substantively violate the provisions of this section; or (3) stay the effective date of the contract until any substantive or procedural defect found by the court has been corrected.

(l) (1) The board may review additional existing privatization contracts and shall review not less than one contracting area each year that is currently privatized. During the review of any such privatization contract, no member of the board shall engage in any ex-parte communication with any lobbyist, contractor or union representative. For each such privatization contract selected for review by the board, the appropriate state contracting agency shall develop a cost-benefit analysis in accordance with subsection (b) of this section. In addition, any affected party may petition the board for review of any existing privatization contract, in accordance with the provisions of subsections (f) to (h), inclusive, of this section.

(2) If such cost-benefit analysis identifies a ten per cent or more cost savings to the state from the use of such privatization contract and such contract does not diminish the quality of the service provided, such state contracting agency shall develop a business case for the renewal of such privatization contract in accordance with the provisions of subsections (d) and (e) of this section. The board shall review such contract in accordance with the provisions of subsections (f) to (h), inclusive, of this section and may approve such renewal by the applicable vote of the board, provided any such renewal that is estimated to cost in excess of one hundred fifty million dollars annually or six hundred million dollars or more over the life of the contract shall also be approved by the General Assembly prior to the state contracting agency renewing such contract. If such renewal is approved by the board and the General Assembly, if applicable, the provisions of subsection (j) of this section shall apply to any proposed amendment to such contract.

(3) If such cost-benefit analysis identifies a cost savings to the state of less than ten per cent, such state contracting agency shall prepare a plan to have such service provided by state employees and shall begin to implement such plan, provided: (A) While such plan is prepared, but prior to implementation of such plan, such state contracting agency may develop a business case for such privatization contract, in accordance with the provisions of subsection (d) of this section, that achieves a cost savings to the state of ten per cent or more. Any such business case shall be reviewed by the board in accordance with the provisions of subsections (f) to (h), inclusive, of this section, and may be approved by the applicable vote of the board; (B) such privatization contract shall not be renewed with the vendor currently providing such service unless: (i) There exists a significant public interest in renewing such contract, and (ii) such renewal is approved by a two-thirds vote of the board; (C) the state contracting agency may enter into a contract with a term of one year or less for the provision of such service until such state contracting agency implements such plan; and (D) the procedure for the transfer of funds from the General Fund, as described in section 4-94, may be utilized to allocate necessary resources for the implementation of the provisions of this subdivision.

(4) Notwithstanding the provisions of subdivision (3) of this subsection, the renewal of a privatization contract with a nonprofit organization shall not be denied if the cost of increasing compensation to

employees performing the privatized service is the sole cause for such contract not achieving a cost savings to the state of ten per cent or more.

(m) The Office of Policy and Management, in consultation with the State Contracting Standards Board, shall: (1) Develop policies and procedures, including templates for use by state contracting agencies for the development of a cost-benefit analysis, as described in subsection (b) of this section, and (2) review with each state contracting agency the budgetary impact of any such privatization contract and the need to request budget adjustments in connection with any such privatization contract.

(n) The State Contracting Standards Board, in consultation with the Department of Administrative Services, shall: (1) Recommend and implement standards and procedures for state contracting agencies to develop business cases in connection with privatization contracts, including templates for use by state contracting agencies when submitting business cases to the board, and policies and procedures to guide state contracting agencies to complete such business cases, and (2) develop guidelines and procedures for assisting state employees whose jobs are affected by a privatization contract.

(o) Notwithstanding the provisions of subsections (a) and (i) of this section, a state contracting agency may enter into a privatization contract without development of a cost-benefit analysis or approval of a business case by the State Contracting Standards Board if (1) the state contracting agency finds that a privatization contract is required (A) due to an imminent peril to the public health, safety or welfare, and (B) the agency states, in writing, its reasons for such finding; and (2) the Governor approves such finding, in writing.

(p) Prior to entering into or renewing any privatization contract that is not subject to the provisions of subsection (a) of this section, the state contracting agency shall evaluate such contract to determine if entering into or renewing such contract is the most cost-effective method of delivering the service, by determining the costs, as defined in subsection (b) of this section, of such service. The state contracting agency shall perform such evaluation in accordance with a template prescribed by the Secretary of the Office of Policy and Management and such evaluation shall be subject to verification by the secretary. The secretary may waive the requirement for an evaluation of cost-effectiveness under this subsection upon a finding by the secretary that exigent or emergent circumstances necessitate such waiver.

[(p)] (q) Nothing in this section shall be construed to apply to procurements that involve the expenditure of federal assistance or federal contract funds, provided federal law provides applicable procurement procedures that are inconsistent with the requirements of this section.